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DEFINITIONS

IN

POLITICAL ECONOMY.

By T. R. MALTHUS.

NEW EDITION, WITH NOTES,

By JOHN CAZENOVE.

3s. 6d.

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DEFINITIONS

IN

POLITICAL ECONOMY.

DEFINITIONS

IN

POLITICAL ECONOMY,

PRECEDED BY

AN INQUIRY INTO THE RULES WHICH OUGHT TO GUIDE POLITICAL ECONOMISTS IN THE DEFINITION AND USE OF THEIR TERMS;

WITH

REMARKS ON THE DEVIATION FROM THESE RULES IN THEIR WRITINGS.

BY THE LATE

REV. T. R. MALTHUS.

A NEW EDITION,

WITH A PREFACE, NOTES, AND SUPPLEMENTARY REMARKS

BY JOHN CAZENOVE.

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THE EDITOR'S PREFACE.

This new edition of the author's last tract is put forth, not for the purpose of reviving the controversies that are embodied in it, and which, owing to the nature of the work, are to a certain extent unavoidable, but rather in the hope of facilitating their settlement by pointing out a source of misconception and of consequent disagreement among writers on the subject, which seems to have hitherto escaped notice.

The questions which the science of Political Economy embraces, may, for the most part, be ranged under two separate heads: the one of them relating to the *Interchange* of commodities, or the proportion in which they exchange for each other; and the other, to their *Distribution* or the proportion in which they are divided into the three several groups of *Wages*, *Rent*, and *Profits*, which form the primary revenues of mankind, from which all other revenues are either mediately or immediately derived.

Although these two branches of the subject touch each other at several points, there is, nevertheless, an essential distinction between them; for the circumstances which affect the one do not always affect the other. For instance, a reduction in the cost of producing any particular commodity will alter its relation to all others; but it will not necessarily alter its own distribution, nor will it any way affect theirs. Again, a general reduction in the value of commodities affecting them *all alike* will not alter their relation to each other. It might or might not affect their distribution. If such reduction arose from the general decline of profit, it would be attended with the former alternative; if it arose from greater economy being applied to their production, it would be attended with the latter.

In our inquiries concerning Wealth, it is of the utmost importance to keep these two subjects of *Interchange* and *Distribution* distinct from each other. The discrimination, however, has not always been made, or uniformly observed, by the writers on Political Economy. Even Adam Smith has not drawn the line of demarcation between them as clearly as he should have done; and it will appear, in the sequel, that they have been not unfrequently confounded by other very distinguished authors, to the destruction of all just conception, and all correct reasoning in this very intricate and difficult science.

Generally speaking, in the writings of our more recent economists, a greater degree of prominence seems to have been given to the *former* than to the *latter* of these topics. Of the two, it has been the more fully illustrated and dilated upon. Indeed, one celebrated author has represented it as constituting the *sole* subject of the science. In his *Introductory Lectures on Political Economy*, Archbishop Whately (the author here alluded to) has justly observed that the name of POLITICAL ECONOMY is exceedingly ill-chosen, as being likely to suggest very confused, indistinct, and even erroneous notions regarding its subject. But he goes on to say that, being concerned *universally and exclusively about Exchanges*, it would have been more suitably expressed by the term CATALLACTICS. As this distinguished writer could never have intended to exclude from its consideration *the Laws of Distribution* (the most important and interesting of its problems), he must have imagined them to be altogether dependent upon those relating to Interchange, which, however, they are not.

In the reprinting of the author's remarks, some slight alterations have been made, no way affecting their sense, and they have been in many instances considerably curtailed, especially in the concluding chapters. This has been done partly in order to avoid unnecessary repetition; but partly also because the modifications introduced into this edition have

rendered some of those remarks less applicable or altogether superfluous. And further, his strictures on the writings of a highly estimable and talented living author have been altogether omitted. It was not necessary to reproduce them for the present purpose of calling attention to certain ambiguities *apparently* verbal, but which have *in reality* given rise to broad differences of principle, terminating in opposite and irreconcileable views.

PREFACE TO THE FIRST EDITION.

THE differences of opinion among political economists have of late been a frequent subject of complaint; and it must be allowed, that one of the principal causes of them may be traced to the different meanings in which the same terms have been used by different writers.

The object of the present publication is, to draw attention to an obstacle in the study of political economy, which has now increased to no inconsiderable magnitude. But this could not be done merely by laying down rules for the definition and application of terms, and defining conformably to them. It was necessary to show the difficulties which had resulted from an inattention to this subject, in some of the most popular works on political economy; and this has naturally led to the discussion of certain important principles and questions of classification,

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CHAPTER I.

RULES FOR THE DEFINITION AND APPLICATION OF TERMS IN POLITICAL ECONOMY.

IN a mathematical definition, although the words in which it is expressed may vary, the meaning which it is intended to convey is always the same. Whether a *straight* line be defined to be a line which lies evenly between its extreme points, or the shortest line which can be drawn between two points, there never can be a difference of opinion as to the lines which are comprehended, and those which are not comprehended, in the definition.

The case is not the same with the definitions in the less strict sciences. The classifications in natural history, notwithstanding all the pains which have been taken with them, are still such, that it is sometimes difficult to say to which of two adjoining classes the individuals on the confines of each ought to belong.

B

It is still more difficult, in the sciences of morals and politics, to use terms which may not be understood differently by different persons, according to their different habits and opinions. The terms virtue, morality, equity, charity, are in every-day use; yet it is by no means universally agreed what are the particular acts which ought to be classed under these different heads.

The terms liberty, civil liberty, political liberty, constitutional government, &c. &c., are frequently understood in a different sense by different persons.

It has sometimes been said of political economy, that it approaches to the strict science of mathematics. But I fear it must be acknowledged, particularly since the great deviations which have lately taken place from the definitions and doctrines of Adam Smith, that it approaches more nearly to the sciences of morals and politics.

It does not seem yet to be agreed what ought to be considered as the best definition of wealth, of capital, of productive labour, or of value;—what is meant by real wages;—what is meant by labour;—what is meant by profits;—in what sense the term "demand" is to be understood,* &c. &c.

As a remedy for such differences, it has been suggested, that a new and more perfect nomenclature should be introduced. But though the inconveniences of a new nomenclature are much more than counterbalanced by its obvious utility in such sciences as chemistry, botany, and some others, where a great

* It may seem strange to the reader, but it is nevertheless true, that the meanings of all these terms, which had been settled long ago, with a great approach towards correctness, by Adam Smith, have of late been called in question, and altered.

variety of objects, not in general use, must be arranged and described so as best to enable us to remember their characteristic distinctions; yet in such sciences as morals, politics, and political economy, where the terms are comparatively few, and of constant application in the daily concerns of life, it is impossible to suppose that an entirely new nomenclature would be submitted to; and if it were, it would not render the same service to these sciences, in promoting their advancement, as the nomenclatures of Linnæus, Lavoisier, and Cuvier, to the sciences to which they were respectively applied.

Under these circumstances, it may be desirable to consider what seem to be the most obvious and natural rules for our guidance in defining and applying the terms used in the science of political economy. The object to be kept in view should evidently be such a definition and application of these terms, as will enable us most clearly and conveniently to explain the nature and causes of the wealth of nations; and the rules chiefly to be attended to may perhaps be nearly included in the four following:—

First. When we employ terms which are of daily occurrence in the common conversation of educated persons, we should define and apply them, so as to agree with the sense in which they are understood in this ordinary use of them. This is the best and most desirable authority for the meaning of words.

Secondly. When the sanction of this authority is not attainable, on account of further distinctions being required, the next best authority is that of some of the most celebrated writers in the science, particularly if any one of them has, by common consent, been considered as the principal founder of it.

In this case, whether the term be a new one, born with the science, or an old one used in a new sense, it will not be strange to the generality of readers, nor liable to be often misunderstood.

But it may be observed, that we shall not be able to improve the science if we are thus to be bound down by past authority. This is unquestionably true; and it is by no means intended to propose to political economists *jurare in verba magistri*, whenever it can be clearly made out that a change would be beneficial, and decidedly contribute to the advancement of the science. But it must be allowed, that in the less strict sciences there are few definitions to which some plausible, nay, even real, objections are not to be made; and, if we determine to have a new one in every case where the old one is not quite complete, the chances are, that we shall subject the science to all the very serious disadvantages of a frequent change of terms, without finally accomplishing our object.

It is acknowledged, however, that a change may sometimes be necessary; and when it is, the natural rules to be attended to seem to be,

Thirdly. That the alteration proposed should not only remove the immediate objections which may have been made to the terms as before applied, but should be shown to be free from other equal or greater objections, and on the whole be obviously more *useful* in facilitating the explanation and improvement of the science. A change which is always itself an evil, can alone be warranted by superior utility taken in the most enlarged sense.

Fourthly. That any new definitions adopted should be consistent with those which are allowed to remain, and that the same terms should always be applied in

the same sense—except where inveterate custom has established different meanings of the same word; in which case the sense in which the word is used, if not marked by the context, which it generally is, should be particularly specified.

It will probably be allowed that these rules for the definitions in Political Economy are both natural and proper, and that if changes are made without attention to them, we must necessarily run a great risk of impeding, instead of promoting, the progress of the science.

In the following definitions, whenever it has been thought necessary to deviate from the ordinary meaning of a term, or to choose between two meanings, both of which have some authorities in their favour, the one selected has been determined by what has appeared to be its superior practical utility in explaining the causes of the wealth of nations.

The main obstacle to a more general agreement among political economists, is rather the differences of opinion which have prevailed as to the classes of objects which are to be separated from each other by appropriate names, than as to the names which these classes should receive. It seems indeed to be pretty generally and most properly agreed, that the principal names which have been so long in use should remain. It would certainly be an Herculean task to change them, nor would any change which could be adopted in the present state of things remove the real difficulties. It has been most justly observed by Bacon, that "to say, where notions cannot be fitly reconciled, that there wanteth a term of nomenclature for it, is but a shift of ignorance." When some people think that every sort of gratification, whether arising from

immaterial or material objects, from spiritual comfort or comfortable clothing, should be designated by the same appropriate term; while others think it of great use and importance that they should be distinguished, it is obvious that such different notions cannot be reconciled by a new nomenclature. The grand preliminary required is, that the notions should be fitly reconciled; and till this is done, a change of names would be perfectly futile. Preserving therefore, generally, the old names, the great practical question is, what ought they to include and what ought they to exclude?*

* This is the real use (and a most important one it is) of definitions in Political Economy, to determine what they do or do not include. They are intended to avoid ambiguity, and not, as in mathematics, to serve as the basis of our reasonings.—EDITOR.

CHAPTER II.

DEFINITIONS IN POLITICAL ECONOMY.

Wealth.

1. The material objects necessary, useful or agreeable to man, which have required some portion of human exertion to appropriate or produce.

Utility.

2. The quality of being serviceable or beneficial to mankind. The utility of an object has generally been considered as proportioned to the necessity and real importance of these services and benefits.

All wealth is necessarily useful; but all that is useful is not necessarily wealth.

Value,

3. Has two meanings—value in use, and value in exchange.

Value in Use,

4. Is synonymous with utility. It rarely occurs in political economy, and is never implied by the word value when used alone.

VALUE IN EXCHANGE,

As defined in the 1st Edition.

5. The relation of one object to some other, or others in exchange, resulting from the estimation in which each is held. When no second object is specified, the value of a commodity naturally refers to the causes which determine this estimation, and the object which measures it.

Value is distinguished from wealth in that it is not confined to material objects, and is much more dependent upon scarcity and difficulty of production.

VALUE,

As defined in the Author's "Principles of Political Economy," 2nd Edit. Chap. 2, Sect. 1.

6. The power which a commodity has of purchasing other things, arising from *intrinsic causes*, or those causes which affect its own cost of production, or its own scarcity or abundance, exclusive of the cost, or abundance or scarcity of any others that may be exchanged with it.

VALUE,

As defined by Adam Smith—Book I. Chap. 4.

7. The power of purchasing other things which the possession of any particular object conveys to the owner.

VALUE,

As applied by Adam Smith—Book I. Chap. 5, et seq.

8. The estimation in which a commodity is held, founded upon its *cost to the purchaser* or the *sacrifice*

which *he* must make in order to acquire it, which sacrifice is measured by the quantity of labour that he gives in exchange for it, or what comes to the same thing, by the labour which it will command.*

PRODUCTION.

9. The creation of objects which constitute wealth.

PRODUCT, PRODUCE.

10. The portion of wealth created by production.

SOURCES OF WEALTH.

11. Land, labour, and capital. The two original sources are land and labour; but the aid which labour receives from capital is applied so very early, and is so very necessary in the production of wealth, that it may be considered as a third source.

LAND.

12. The soil, mines, waters, and fisheries of the habitable globe. It is the main source of raw materials and food.

LABOUR.

13. The exertions of human beings employed with a view to remuneration. If the term be applied to other exertions, they must be particularly specified.

* The Editor has ventured to interpolate these last three definitions for the purpose stated in his Preface—and as further explained in a note on the subject, pages 19—22.

Productive Labour.

14. The labour which is so directly productive of wealth as to be capable of estimation in the quantity or value of the products obtained.

Unproductive Labour.

15. All labour which is not directly productive of wealth. The terms productive and unproductive are always used by political economists in a restricted and technical sense, exclusively applicable to the direct production or non-production of wealth.

Industry.

16. The exertion of the human faculties and powers to accomplish some desirable end. No very marked line is drawn in common language, or by political economists, between industry and labour; but the term industry generally implies more superintendence and less bodily exertion than labour.

Stock.

17. Accumulated wealth, either reserved by the consumer for his consumption, or kept or employed with a view to profit.

Capital.

18. That portion of the stock of a country which is kept or employed with a view to profit in the production and distribution of wealth.*

* See note, page 22.

Fixed Capital.

19. That portion of stock employed with a view to profit which yields such profit while it remains in the possession of the owner.

Circulating Capital.

20. That portion of stock employed with a view to profit which does not yield such profit till it is parted with.

Revenue.

21. That portion of stock or wealth which the possessor may annually consume without injury to his permanent resources. It consists of the rents of land, the wages of labour, and the profits of stock.

Accumulation of Capital.

22. The employment of a portion of revenue as capital. Capital may therefore increase without an increase of stock or wealth.*

Saving.

23. In modern times, implies the accumulation of capital, as few people now lock up their money in a box.

Rent of Land.

24. That portion of the produce of land which remains to the owner after all the outgoings belonging to its cultivation are paid, including the ordinary profits of the capital employed.

* See note, page 23.

Money-Rent of Land.

25. The average rent of land as before defined, estimated in money.

Gross Surplus of the Land.

26. That portion of the produce of land which is not actually consumed by the cultivators.

Wages of Labour.

27. The remuneration paid to the labourer for his exertions.

Nominal Wages.

28. The wages which the labourer receives in the current money of the country.

Real Wages.

29. The necessaries, conveniences, and luxuries of life which the wages of the labourer enable him to command.

The Rate of Wages.

30. The ordinary wages paid to the labourer by the day, week, month, or year, according to the custom of the place where he is employed. They are generally estimated in money.

The Price of Labour,

31. Has generally been understood to mean the average money-price of common day-labour, and is not therefore different from the rate of wages, except that it more specifically refers to money.

THE AMOUNT OF WAGES.

32. The whole earnings of the labourer in a given time, which may be much more or much less than the average rate of wages, or the price of common day-labour.*

THE PRICE OF EFFECTIVE LABOUR.

33. The price in money of a given quantity of human exertion of a given strength and character, which may be essentially different from the common price of day-labour, or the whole money-earnings of the labourer in a given time.

ACCUMULATED LABOUR.

34. The labour worked up in the raw materials and tools applied to the production of other commodities.

PROFITS OF STOCK.

35. When stock is employed as capital in the production and distribution of wealth, its profits consist of the difference between the value of the capital advanced, and the value of the commodity when sold or used.

THE RATE OF PROFITS.

36. The per-centage proportion which the value of the profits upon any capital bears to the value of such capital.

THE INTEREST OF MONEY.

37. The net profits of a capital in money separated from the risk and trouble of employing it.

* See note on wages, page 23.

The Profits of Industry, Skill, and Enterprise.

38. That portion of the gross profits of capital, independent of monopoly, which remains after deducting the net profits, or the interest of money.

Monopoly Profits.

39. The profits which arise from the employment of capital where the competition is not free.

Conditions of the Supply of Commodities.

40. The advance of the quantity of accumulated and immediate labour necessary to their production, with such a per-centage upon the whole of the advances for the time they have been employed as is equivalent to ordinary profits. If there be any other necessary conditions of the supply arising from monopolies of any description, or from taxes, they must be added.

Elementary Costs of Production.

41. An expression exactly equivalent to the conditions of the supply.

Measure of the Conditions of the Supply, or of the Elementary Costs of Production.

42. The quantity of labour for which the commodity will exchange, when it is in its natural and ordinary state.

The Value, Market Value, or Actual Value, of a Commodity at any Place or Time.

43. The estimation in which it is held at that place and time, determined in all cases by the state of the supply compared with the demand, and ordinarily by the elementary costs of production which regulate that state.

The Natural Value of a Commodity at any Place and Time.

44. The estimation in which it is held when it is in its natural and ordinary state, determined by the elementary costs of its production, or the conditions of its supply.

Measure of the Market or Actual Value of a Commodity at any Place or Time.

45. The quantity of labour which it will command or exchange for at that place and time.

Measure of the Natural Value of a Commodity at any Place and Time.

46. The quantity of labour for which it will exchange at that place and time, when it is in its natural and ordinary state.

The Price, the Market Price, or Actual Price of a Commodity at any Place and Time.

47. The quantity of money for which it exchanges at that place and time, the money referring to the precious metals.

The Natural Price of a Commodity at any Place and Time.

48. The price in money which will pay the elementary costs of its production, or the money conditions of its supply.

Supply of Commodities.

49. The quantity offered, or ready to be immediately offered, for sale.

Demand for Commodities,

50. Has two distinct meanings: one, in regard to its extent, or the quantity of commodities purchased; and the other, in regard to its intensity, or the sacrifice which the demanders are able and willing to make in order to satisfy their wants.

Demand in regard to its Extent.

51. The quantity of the commodity purchased, which generally increases with the increase of the supply, and diminishes with the diminution of it. It is often the greatest when commodities are selling below the costs of production.

Demand in regard to its Intensity.

52. The sacrifice which the demanders are able and willing to make in order to satisfy their wants. It is this species of demand alone which, compared with the supply, determines prices and values.

Effectual Demand, in Regard to its Extent.

53. The quantity of a commodity wanted by those who are able and willing to pay the costs of its production.

Effectual Demand, in Regard to its Intensity.

54. The sacrifice which the demanders must make, in order to effectuate the continued supply of a commodity.

Measure of the Intensity of the Effectual Demand.

55. The quantity of labour for which the commodity will exchange, when in its natural and ordinary state.

Excess of the Demand above the Supply.

56. The demand for a commodity is said to be in excess above the supply, when, either from the diminution of the supply, or the increase of the effectual demand, the quantity in the market is not sufficient to supply all the effectual demanders. In this case the intensity of the demand increases, and the commodity rises, in proportion to the competition of the demanders, and the sacrifice they are able and willing to make in order to satisfy their wants.

Excess of the Supply above the Demand, or Partial Glut.

57. The supply of a commodity is said to be in excess above the demand, or there is a partial glut,

when, either from the superabundance of supply, or the diminution of demand, the quantity in the market exceeds the quantity wanted by those who are able and willing to pay the elementary costs of production. It then falls below these costs in proportion to the eagerness of the sellers to sell; and the glut is trifling, or great, accordingly.

General Glut.

58. A glut is said to be general, when, either from superabundance of supply or diminution of demand, a considerable mass of commodities falls below the elementary costs of production.

A Given Demand.

59. A given demand, in regard to price, is a given quantity of money intended to be laid out in the purchase of certain commodities in a market; and a given demand, in regard to value, is the command of a given quantity of labour intended to be employed in the same way.

Variations of Prices and Values.

60. Prices and values vary as the demand directly and the supply inversely. When the demand is given, prices and values vary inversely as the supply; when the supply is given, directly as the demand.

Consumption.

61. The destruction wholly, or in part, of any portions of wealth.

PRODUCTIVE CONSUMPTION.

62. The consumption or employment of wealth by the capitalist, with a view to future production.

UNPRODUCTIVE CONSUMPTION, OR SPENDING.

63. The consumption of wealth, as revenue, with a view to the final purpose of all production—subsistence and enjoyment; but not with a view to profit.

LABOUR FUND.

64. That portion of the Revenue and Capital of the Society which is specially appropriated to the payment of wages; one part of it being applied to productive, and the other to non-productive Labourers.

NOTES BY THE EDITOR.

ON VALUE.—DEFINITIONS 5—8.

THE controversies to which the subject of Value has given rise, have their origin in that confusion between the questions relating to the *interchange* of commodities, and those relating to their *distribution*, which has been noticed in the preface to this edition.

Adam Smith's definition of Value, that it consists in the *power of purchasing*, which has been adopted by most writers, connects it with the former of these subjects; and as there exists no one object which can have a uniform power of purchasing all others, it is

obvious that in *that* sense of the term, there can be no such thing as a measure of Value.

The moment, therefore, that Adam Smith assigned labour as its measure, from that moment he virtually abandoned his own definition, and accordingly in his fifth chapter, and throughout the remainder of his work, we find him using the term Value (as it is popularly understood) to express, not the relation between a commodity and any other or others that may be in the market, but the *cost* of it to the *purchaser*, or the sacrifice which *he* must make in order to procure it.

Now of Value so explained, although it is practically estimated in *money*, labour is its only *real* measure, since it is the *only object of which the same quantity at all times represents the same cost*. Six or eight hours' labour (that is, of *common* or *unskilled* labour) are precisely the same degree of sacrifice *now*, that six or eight hours' labour were *last year* or *last century*, or will be *next* year or *next* century; and as the *producer* of a commodity rightly estimates its cost *to him*, by the quantity of labour which he has given or put forth in order to acquire it, so, in like manner, must the *purchaser* estimate its cost to *him*, by the quantity of labour (or labour's worth) which he must give in order to acquire it; but this latter quantity of labour is always precisely equal to, or identical with, that which the commodity will command, and hence Adam Smith is quite correct in representing it as the measure of value. "At all times and in all places, he observes (bk. 1, chap. v.) that is *dear* which it is difficult to come at, or which it costs much labour to acquire; and that *cheap*, which is to be had easily or with very little labour. Labour alone, therefore," he adds "never varying in its own value (*i. e.*, as a *measure of cost*,

and *not a measure of purchasing power*, as Mr. Buchanan and others have erroneously interpreted it) is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their *real* price—money is their *nominal* price only."

Value, in this sense of it, relates not to the interchange of commodities, but (under the same circumstances of cost) always to their distribution. The question is not as to the proportion in which different commodities exchange with each other, but as to what is their cost to the purchaser, upon which their distribution, so long as the cost of bringing them to market remains the same, essentially depends.

That labour is not equally efficient in different countries, does not in the least invalidate the truth of Adam Smith's doctrine : for the greater or less efficiency of labour in each country is exactly compensated by the higher or lower money-wages in each, which practically puts them all on the same level. The value (or labour's worth) of money is always the highest in those countries where labour is the least efficient, and the lowest in those where it is the most efficient.

This difference in the value of money in different countries, which was first noticed by Mr. Malthus, in a note to his "Tract on Rent," and afterwards further explained by Mr. Ricardo in his chapter on *Foreign Trade*, has been more fully entered into by Mr. Senior, in his "Lectures on the cost of obtaining money," in which he has very properly measured the value of money in each country, by the quantity of labour which must be given in each to purchase it; in other words by the wages of ordinary labour in each.

The question concerning a measure of Value (considered as the sacrifice made by the purchaser to acquire a commodity) is one which at the present juncture has a very peculiar interest attaching to it. Gold and silver have hitherto been used as the nominal measures of Value in all countries, not only on account of their containing a great value in a small bulk, but because during very long periods of time they have varied so little in their own value; that is, in their relation to labour.

There are now symptoms abroad of a great change in this respect, as regards the former of these metals. Already the wages of labour have in many instances risen, and if the quantity of gold obtained during the next few years should at all equal the expectations that have been held out respecting it, the depreciation in the value of that metal cannot fail to be very considerable, to the serious injury of all persons dependent upon fixed money incomes, or payments of any kind.

A recognised standard naturally leads to the conclusion that whenever the nominal measure *widely* deviates from it, a fresh adjustment should be made, or some other metal be chosen as the practical representative of Value.

Note on Capital.—Definition 18.

When capital is employed in advancing to the workman his wages, it adds nothing to the funds for the maintenance of labour, but simply consists in the application of a certain portion of those funds already in existence, to the purposes of production.

Note on the Accumulation of Capital.—Definition 22.

Accumulation is here defined to be the *employment* of revenue as capital. But accumulations frequently take place, and in very large masses too *anterior* to such employment. This is a circumstance which calls for especial notice as important consequences flow from it. It gives rise to transactions between two distinct sets of persons, viz., the *lenders* of capital who receive an interest for it, and the *borrowers* who pay that interest out of their profits. As such accumulations are both made and loaned out in the shape of money, the term *monied capital* is commonly employed to express them.

Note on Wages.—Definitions 27—32.

The condition of the labourer depends upon his total weekly, monthly, or yearly earnings, and these earnings depend *partly* on the price of his labour, or the wages paid him for any given quantity of his time, and *partly* on the quantity of his work or employment. This explains how it is that, when Profits rise, Wages may rise too (that is, may become greater in amount, although less as to the proportion which they bear to the value of what is produced) ; and on the other hand, that when Profits fall, Wages may also fall from diminution of employment, although their proportion to the produce may be increased.

The greater or less demand for labour manifests itself by an increase or diminution of employment, and not by a rise or fall of its price.

A rise or fall in the price of labour is in fact a fall or rise in the value of money ; but as labour is the last thing to be affected by variations in the quantity

of money, it happens that money is generally of all commodities the steadiest and therefore the best adapted to be a *practical* measure of the value of all others.

Note on Labour Fund.—Definition 64.

This definition is not in the original edition. It has been introduced for the purpose of remarking that, as productive labourers are frequently maintained out of Revenue, their wages are determined by the proportion which their number bears to the *entire part* of the fund applied to their maintenance, and not merely, as has sometimes been stated, to *that part* of it, which consists of Capital.

CHAPTER III.

THE AUTHOR'S OBSERVATIONS ON THE DEFINITIONS.

Def. 1. The reader will be aware that, in almost all definitions, the same meaning may be conveyed in different language, and that it is the meaning rather than the mode of expressing it that should be the main object of our consideration. The essential question in the definition of Wealth is, whether or not it should be confined to material objects, and the reasons have already been given in the foregoing rules for thinking that it should. Even M. Say, who admits "*les produits immatériels*," allows that the multiplication of them "*ne fait rien pour la richesse;*" and M. Storch, in his able "Cours d'Économie Politique," though he justly lays great stress on what he calls *les biens internes*, with a view to civilisation and the indirect production of wealth, confines the term *richesses* to *biens externes*, or material objects; and according to this meaning treats of the *Théorie de la Richesse Nationale*, in the first, and far the largest part of his work. Altogether, it will be allowed that some classification of this kind, or some separation of material from immaterial objects is, in the highest degree, useful in a definition of wealth.

The latter part of the definition is of minor importance. It is intended to exclude such material objects

as air, light, rain, &c.—which, however necessary and useful to man, are seldom considered as wealth; and, perhaps, it is more objectionable to exclude them, by the introduction of the term exchangeable value into a definition of wealth, than in the mode which has been adopted. If the latter clause were not added, the only consequence would be, that, in comparing different countries together, such objects as air, light, &c., would be neglected as common quantities.

Def. 5. Two articles are never exchanged with each other without a previous estimation being formed of the value of each, by a reference to the wants of mankind and the means of production. This general and most important relation to the means of production, and the labour which represents these means, seems to be quite forgotten by those who imagine that there is no relation implied when the value of a commodity is mentioned without specific reference to some other commodity.

M. Say, under the head *Valeur des Choses*, observes, "c'est la quantité d'autres choses évaluables qu'on peut obtenir en échange d'elle." * This is a most vague and uncertain definition, and much less satisfactory than the general power of purchasing.

M. Storch says, that "la valeur des choses, c'est leur utilité relative;" but this certainly cannot be said unless we completely change the natural and ordinary meaning either of utility or value.

Neither M. Say nor M. Storch has sufficiently distinguished utility, wealth, and value.

Def. 9. The term creation is not here meant to apply to the creation of matter, but to the creation and production of the objects which have been defined to be wealth.

* Epitome, vol. ii. p. 507.

Defs. 11 and 15. If wealth be confined to material objects, it must be allowed to be peculiarly convenient and useful, in explaining the causes of the wealth of nations, to have some appropriate term for that species of labour which directly produces wealth; and as the principal founder of the science of political economy has used the term *productive labour* in the restricted sense necessary for this special purpose, perhaps few objections would have been made to it, if it had not involved all other kinds of labour, however useful and important, under the apparently disparaging designation of unproductive. This is a consequence, no doubt, to be regretted: yet, when it has been repeatedly stated that the term unproductive, as applied by Adam Smith, in no degree impeaches the utility and importance of such labour, but merely implies that it does not directly produce gross wealth, the mere name ought not to decide against a classification for which it appears from experience that it is very difficult to find a satisfactory substitute.

In M. Storch's "Considérations sur la Nature du Revenu National," he does not appear to me to give a correct view of what Adam Smith means by productive labour.* The difficulty of classification above alluded to appears strikingly in his treatise. There is some plausibility in the system, and it is explained with ingenuity and ability; but the adoption of it would destroy all precision in the science of political economy.

Defs. 22 and 23. The accumulation of capital and the difference between saving and spending could never be distinctly explained, if we were to call all labour equally productive.

* Chap. iv. p. 83.

Def. 26. It is this gross surplus of the land which furnishes the means of subsistence to the inhabitants of towns and cities. Besides the rents of land, which are powerfully effective in this respect, a large part of what, in the division of the produce of land, would fall to the shares of the farmers and labourers, is exchanged by them for other objects of convenience and gratification, thus giving the main necessaries of life to a great mass of persons not immediately connected with the soil. The proportion which this mass of persons may bear to the cultivators will depend upon the natural fertility of the soil, and the skill with which it has been improved, and continues to be worked.

Defs. 31 and 33. In a valuable publication on the "Price of Corn, and Wages of Labour," by Sir Edward West, he proposes that the *price of labour* should mean the sum paid for a given quantity of labour of a given character. It would no doubt be useful to have some appropriate term to express this meaning; but, as the *price of labour* has certainly not hitherto been used in this sense, and as it would be, in almost all cases, extremely difficult to give an answer to a question respecting the price of labour so understood, it would certainly be proper to vary the expression in some degree, in order to prepare people for a new meaning. In Definition 33, therefore, this meaning has been given to *the price of effective labour*.

Def. 34. It would save time and circumlocution (which is one of the great objects of appropriate terms), if, in speaking of the labour worked up in commodities, the labour worked up in the capital necessary to their production were designated by the term *accumulated labour*, as contra-distinguished from

the *immediate labour* employed by the last capitalist. It must always be recollected, however, that labour is not the only element worked up in capital.

Def. 41. The word *elementary* is here used in order to show that money-costs are not meant. On account of the doubt which may arise in this respect when the term *costs of production* is used alone, and the further doubt, whether ordinary profits are always included, *the conditions of the supply* is a more expressive and less uncertain term for the same meaning. Generally, however, it is not so well understood: and on this account, the *costs of production,* with the addition of the word *elementary* and including profits, have been defined as having precisely the same meaning as the conditions of the supply. As the profits worked up in the capital necessary to any production must form a part of the advances or *costs* in any sense in which the word costs can be used, it seems, on the whole, best to include them in the elementary costs of production. They are obviously included in the necessary conditions of the supply.

Defs. 42, 45, and 46. In speaking of the quantity of labour for which a commodity will exchange, as a measure either of the conditions of its supply or of its value, it must always be understood, that the different kinds of labour which may have been employed to produce it, must be reduced to labour of one description and of the lowest denomination, namely, common agricultural day-labour, estimated on an average throughout the year. This is the kind of labour which is always referred to when labour is spoken of as a measure.

Def. 60. It is not true, as stated by M. Say, that prices rise in the direct ratio of the *quantity* demanded,

and the inverse ratio of the *quantity* supplied.* They only vary in this way, when the demand is understood to mean the sacrifice which the demanders are able and willing to make, in order to supply themselves with what they want; which may be represented in regard to price by the quantity of money ready to be employed in purchases in a market. When the demand for *labour* is spoken of, it can only relate to *extent;* and a greater demand can only signify a power of commanding a greater *quantity* of labour.

Def. 62. The only productive consumption, properly so called, is the consumption or destruction of wealth by capitalists with a view to reproduction. This is the only marked line of distinction which can be drawn between productive and unproductive consumption. The workman whom the capitalist employs certainly consumes that part of his wages which he does not save, as revenue, with a view to subsistence and enjoyment; and not as capital, with a view to production. He is a productive consumer to the person who employs him, and to the state, but not, strictly speaking, to himself. Consumption is the great purpose and end of all production. The consumption of wealth, as revenue, with a view to support and enjoyment, is even more necessary and important than the consumption of wealth as capital; but their effects are essentially different in regard to the direct production of wealth, and they ought therefore to be distinguished.

The foregoing definitions are not presented to the notice of the reader as in any degree complete, either in regard to extent or correctness. In extent, they have been purposely limited, and in regard to correctness,

* Vol. ii. p. 17. 4th edition.

owing to the difficulty of the subject, they do not probably either embrace or exclude all that they should do. In the sciences of morals, politics, and political economy, which will not admit of a change in the principal terms already in use, the full attainment of this object is impossible; yet a nearer approach to it is always something gained. Nor would these definitions have been offered to the public, if they had not been thought, on the whole, less objectionable, and more useful in explaining the causes of the wealth of nations than any which I had before seen. But I am conscious of some anomalies, and probably there are some more of which I am not conscious. Knowing, however, that the attempt to remove them might destroy useful classifications, a few individual cases, of little importance, have not been considered as valid objections.

It is known that Adam Smith gave few regular definitions; but the meanings in which he used his terms may be collected from the context, and these have been generally adhered to. For some I have been indebted to M. Say; others are my own; and in all, I have endeavoured to follow the rules laid down at the beginning of this treatise. My object will be fully answered, if what I have done, should succeed in drawing that degree of attention to the subject which may lead to the production of something of the same kind, more correct and more useful, and so convincing as to be generally adopted.

In the meanwhile it may tend to illustrate the use and importance of these rules, to notice some of the most striking deviations from them in the works of writers of the highest reputation.

CHAPTER IV.

ON THE DEFINITION OF WEALTH BY THE FRENCH ECONOMISTS.

It will not be worth while to advert to the misnomers of the mercantile system; but the system of the French economists was a scientific one, and aimed at precision. Yet it must be acknowledged that their definition of wealth violated the first and most obvious rule which ought to guide men of science, as well as others, in the use of terms. Wealth and riches are words in the commonest use; and though all persons might not be able at once to describe with accuracy what they mean when they speak of the wealth of a country, yet all, we believe, who intend to use the term in its ordinary sense, would agree in saying that they *do not* confine the term either to the gross raw produce, or the net raw produce of such country. And it is quite certain that two countries, with both the same gross raw produce, and the same net raw produce, might differ most essentially from each other in a great number of the most universally acknowledged characteristics of wealth, such as good houses, good furniture, good clothes, good carriages, which, in the one case, might be possessed only by a few great landlords, and a small number of manufacturers and merchants; and in the other case, by

an equal, or greater proportion of landlords, and a much greater number of manufacturers and merchants. This difference might take place without any difference in the amount of the raw produce, the net produce, or the population, merely by the conversion of idle retainers and menial servants into active artisans and traders. The result, therefore, of comparing together the wealth of different countries, according to the sense of that term adopted by the economists, and according to the sense in which it is generally understood in society, would be totally different. And this circumstance detracts in a very great degree from the practical utility of the works of the economists.

CHAPTER V.

ON THE DEFINITION AND APPLICATION OF TERMS BY ADAM SMITH.

In adverting to the terms and definitions of Adam Smith, in his "Wealth of Nations," it will, I think, be found that he has less frequently and less strikingly deviated from the rules above laid down, and that he has more constantly and uniformly kept in view the paramount object of explaining in the most intelligible manner the causes of the wealth of nations, according to the ordinary acceptation of the expression, than any of the subsequent writers in the science, who have essentially differed from him. His faults in this respect are not so much that he has often fallen into the common error, of using terms in a different sense from that in which they are ordinarily applied in society, but that he is sometimes deficient in the precision of his definitions; and does not always, when adopted, adhere to them with sufficient strictness.

His definition of wealth, for instance, is not sufficiently accurate; nor does he adhere to it with sufficient uniformity: yet it cannot be doubted that he means by the term generally the *material* products which are necessary, useful, and agreeable to man, and are not furnished by nature in unlimited abundance;

and it is in this sense likewise that it is most generally understood in society, and that it may be most usefully applied, in explaining the causes of the wealth of nations.

In adopting the labour which a commodity will command as the measure of its value, he has not, as it appears to me, given the most conclusive reasons for it, nor has he in all cases made it quite clear whether he means the labour which a commodity will command, or the labour worked up in it. He has more frequently failed in not adhering practically to the measure he had proposed, and in substituting as an equivalent the quantity of corn a commodity will command, which, as a measure of value, has properties essentially distinct from labour. Yet, with all this, it must be acknowledged that he has generally used the terms labour and value in the sense in which they are ordinarily understood in society, and has, with few exceptions, applied labour as the measure of value in the way in which it may be made most extensively useful in the explanation of the science.

It has been sometimes objected to Adam Smith, that he has applied the term *productive* in a new and not very appropriate sense. But if we examine the manner in which this term is applied in ordinary conversation and writing, it must be allowed that, whatever meaning may be thought to attach to it, from its derivation, it is practically used as implying causation in regard to almost any effect whatever. Thus we say that such and such things are productive of the best effects, others of the very worst effects, and others are unproductive of, or do not produce, any perceptible effects; meaning by these expressions, that some things cause the best effects, others the

worst effects, others, again, cause no perceptible effects; and these effects may, of course, apply according to the context, and the subject under discussion, to the health of the body, the improvement of the mind, the structure of society, or the wealth of a nation.

Now, Adam Smith was inquiring into the nature and causes of the wealth of nations; and having confined the term *wealth* to material objects, and described human labour as the main source of wealth, he clearly saw the necessity of making some distinction between those different kinds of labour which, without reference to their utility, he could not but observe had the most essentially distinct effects, in directly causing that wealth, the nature of which he was investigating. He called one of these kinds of labour *productive*, or productive of wealth, and the other *unproductive*, or not productive of wealth; and knowing that it would occasion interminable confusion, and break down all the barriers between production and consumption, to attempt to estimate the circumstances which might *indirectly* contribute to the production of wealth, he described productive labour in such a way, as to leave no doubt that he meant the labour which was so directly productive of wealth, as to be estimated in the quantity or value of the material object produced.

In his application of the terms *productive* and *unproductive*, therefore, he does not seem to have violated the usage of common conversation and writing; and it appears to me, that, if we fully and impartially consider the consequences of making no distinction between different kinds of labour, we must feel the conviction that the terms which he has

adopted are pre-eminently useful for the purpose to which they are applied—that is, to enable him to explain, intelligibly and satisfactorily, the causes of the wealth of different nations, according to the ordinary meaning which men attach to the term wealth, whatever may be their theories on the subject.

Where Adam Smith has most failed in the use of his terms, is in the application of the word *real*. The *real* value of a commodity he distinctly and repeatedly states to be the quantity of *labour* which it will command, in contradistinction to its nominal value, that is, its value in money, or any other specific commodity named. But while he is thus using the word real, in this sense, he applies it to wages in a totally different sense, and says that the *real* wages of labour are the necessaries and conveniences of life which the money received by the labourer will enable him to command. Now, it must be allowed that both these modes of applying the word *real* cannot be correct, or consistent with each other. If the value of labour varies continually with the varying quantity of the necessaries and conveniences of life which it will command, it is completely inconsistent to bring it forward as a measure of real value. And if it can, with propriety, be brought forward as a measure of the real value of commodities, it follows necessarily that the average value of a given quantity of labour, of a given description, can never be considered as in the slightest degree affected by the varying quantity of commodities for which it will exchange. Of this Adam Smith seemed to be fully aware in the fifth chapter of his first book, where he says distinctly, that when more or less goods are given in

exchange for labour, it is the goods that vary, not the labour.

It is evident, therefore, that to get right, we must cease to use the term *real*, in one or other of the meanings in which it has been applied by Adam Smith.

If the term had never been applied in political economy in a different sense from that in which it was first used by Adam Smith, there could be no doubt that it might be advantageously continued, and the expression *real value* might answer its purpose very well, and save any question respecting the substitution of some other term, such as intrinsic, positive, absolute, or natural. But as the term *real* has been very generally applied, by most writers, to wages, implying the real quantity of the means of subsistence and comfort which the labourer is enabled to command, in contradistinction to his nominal or money wages, the matter cannot be so easily settled, and we must come to some determination as to which of the two meanings it would be most advisable to reject.

Adhering to the rules which have been laid down, it will probably be acknowledged that the term *real*, when applied to the means of obtaining something in exchange, seems more naturally to imply the power of commanding the necessaries, conveniences, and luxuries of life, than the power of commanding labour. A certain quantity of wealth is something more *real*, if the word real be used in its most ordinary sense, than a certain quantity of labour; and if, on this account, we continue to apply the term real to wages, we must express by positive, absolute, intrinsic, or natural, what Adam Smith has expressed by the word real, as applied to value: or it would be still better if political

economists would agree in assigning a distinct meaning to the term value, as contradistinguished from price, whenever the value of a commodity is mentioned without mentioning any specific article in which it is proposed to estimate it, in the same manner as the price of a commodity is universally understood to mean price in money, whenever the term is used without referring specifically to some other article.

If, however, it should be found that the term *real*, in the sense in which it is first and most frequently applied by Adam Smith, has by usage got such fast hold of this meaning, that it cannot easily be displaced; and, further, if it be thought that an adjunct of this kind to the term value will sometimes be wanted in explanations, and that to express what Adam Smith means, the term real is preferable to either of the terms intrinsic, positive, absolute, or natural, there would be little objection to letting it retain its first meaning, provided we took care not to use it in application to the wages of labour, as implying the necessaries, conveniences, and amusements of life. Instead of *real* wages, we must then say corn wages, commodity wages, wages in the means of subsistence, or something of the kind. But the other change is obviously more simple, and therefore preferable.

SUPPLEMENTARY REMARKS.

THE most serious inaccuracy into which Adam Smith has fallen is, his having defined *value* one way, and applied it another way; as noticed in the

definitions (p. 8). Although this mistake is an important one, it has fortunately not materially affected his reasonings, for, except in the definition itself, he has everywhere used the term in its popular and accustomed sense. But his error has misled a number of other writers. His commentator, Mr. Buchanan, for instance, in his edition of "The Wealth of Nations," has a note on the subject of value to the following effect (book i., chap. 5) :—

"The invariable value of labour seems a metaphysical notion with which Dr. Smith has bewildered both himself and his readers. The value of labour is its market price, which varies like that of other commodities with the state of the supply. But if it thus varies in its own value, how can it measure the value of other commodities? Will not its price vary with its plenty or scarcity, and if so, how can it be an universal measure of value at different times and places?" These remarks are true of value as the author of the "Inquiry into the Wealth of Nations" had defined it; but Mr. Buchanan did not perceive, that in the chapter which he comments upon, Adam Smith was referring to labour, *not* as invariable in its power of purchasing, but invariable as a measure of cost or sacrifice. The same quantity of labour will not always purchase the same quantity of other things, but it will always represent the same amount or degree of sacrifice; and singularly enough Mr. Buchanan seems himself to have been possessed with a vague notion that there existed such a standard, since he afterwards refers to corn, as the best measure from century to century, owing (he says) to the superior *steadiness* of its own value; in which case he could not have meant to refer to its *purchasing power*, for in that sense of

the term a steadiness in corn must involve the like steadiness in the things purchased by it.

Again, Mr. M'Culloch, in his edition of Adam Smith's work, (book i., chap. 6,) remarks as follows:—

"I have already shown ('Introductory Discourse,' p. lxxi,) that the doctrine laid down in this chapter, that the value of commodities in the advanced stages of society varies according to the variation of rent, profit, and wages, is fundamentally erroneous. The variations alluded to merely affect the *distribution of commodities*, or the proportions in which they are divided among the three great classes of landlords, labourers, and capitalists, and have nothing to do with their value, or their power to exchange for or buy each other, or labour."

Mr. M'Culloch has in this instance noticed the distinction between the interchange of commodities and their distribution, which has been overlooked by so many other writers, and in his introductory discourse above referred to, has very truly observed that the variations of the one are altogether independent of the variations of the other; but having adopted that interpretation of value which connects it with the former subject, he has concluded that Adam Smith must be in error in applying it to the latter. And yet Mr. M'Culloch could not but allow, that so long as the cost of producing commodities remains the same, the rise or fall of their value in the market, whether arising from temporary or permanent causes, must affect their distribution.

These mistakes regarding value are all traceable to the looseness of Adam Smith's language on the subject, and other instances of the like confusion will be given hereafter.—*Editor*.

CHAPTER VI.

ON THE DEFINITION AND APPLICATION OF TERMS, BY MONSIEUR SAY.

It would lead too far and into too many repetitions, to go through the principal definitions of the continental political economists, and examine the manner in which they have used their terms in reference to the obvious rules above laid down; but one very signal deviation from them in the justly distinguished work of M. Say requires noticing. It relates to the term *utility*.

It must be allowed by those who are acquainted with M. Say's work, first, that he has used the term utility in a sense totally different from that in which it is used in common conversation, and in the language of those who are considered as the best authorities in political economy. Proceeding upon the principle, that nothing can be valuable which is not useful to some person or other, he has strangely identified utility and value, and made the utility of a commodity proportionate to its value, although the custom is universal of distinguishing between that which is useful and that which is merely high-priced, of that which is calculated to satisfy the acknowledged and general wants of mankind, and that which may be only calculated to satisfy the capricious tastes of a

few. He has thus violated the first and most obvious rule for the use of terms.

Secondly, he has gone directly against the usage of the best writers in political economy, and particularly against the authority of Adam Smith, whom he himself considers as the main founder of the science. Adam Smith has declared his opinion in the most decided manner on this subject, by contrasting value in use, and value in exchange, and illustrating the distinction between them by adducing the marked instances of a diamond and water. M. Say, therefore, in the manner in which he has applied the term utility, has violated the second obvious rule for the use of terms, as well as the first.

Thirdly, the objections to the old terms in use, wealth and value, if there were any, do not by any means seem to have been such as to warrant the introduction of a new term. The object of M. Say seems to have been to show, that production does not mean production of new matter in the universe. But no one, not even the economists, ever had this idea; and Adam Smith's definition of production completely excludes it. "There is one sort of labour," he says, "which adds to the value of the subject on which it is bestowed * * * and as it produces a value may be called productive." * There is, certainly, no question here about the creation of new matter. And as M. Say observes, that when things are in their ordinary and natural state their value is the measure of their utility, while he had before affirmed that riches were in proportion to value,† it is difficult to conceive what beneficial purpose he could have in view in

* Wealth of Nations, b. ii. c. iii. p. i. vol. ii. 6th ed.

† Traité d' Economie Politique, liv. i. c. i. pp. 2, 4, 4th ed.

introducing the term utility thus made synonymous with value or riches.

Fourthly, as the terms useful and utility are in such very common use, when applied in their accustomed sense, and cannot easily be supplied by others, it is extremely difficult to confine their application to the new sense proposed by M. Say. It is scarcely possible not to use them sometimes, as M. Say himself has done, according to their ordinary acceptation; but this necessarily introduces uncertainty and obscurity into the language of political economy.

M. Say had before made little or no distinction between riches and value, two terms which Mr. Ricardo justly considers as essentially different. He then introduces another term, utility, which, as he applies it, can hardly be distinguished from either of the others. The new term, therefore, could not have been called for; and it must be allowed that the use of it in the sense proposed, violates all the most obvious rules for the introduction of a new term into any science.

SUPPLEMENTARY REMARKS.

MONS. SAY has not escaped the inconsistency which has grown out of Adam Smith's definition of Value. In conformity with that definition, he has represented it as being the relation of one object to any other or others. "La Valeur d'une chose est la quantité de toute autre chose qu'on peut obtenir en échange d'elle." (Vol. II. chap. 1.) But in other parts of

his writings, he distinguishes between the variations in *relative* and those in *real* value; the *former*, he says, being the variations which commodities experience in regard to each other, and the *latter* those which they undergo with reference to their *cost of production*—an expression which as it is meant to include the producer's profit (*le profit de l'entrepreneur*) is equivalent to cost to the purchaser; and he illustrates the difference between these two sorts of value, by supposing the case of two commodities continuing to exchange with each other as before, after both have undergone a reduction in their cost. He then puts this question, "If these two objects have both fallen in value, although not relatively to each other, are we not entitled to conclude that this fall is *real*, and that all things may in like manner experience a *real* fall?" (Book ii. chap. 2.)

Nothing can be more satisfactory than this passage, and it would have been well if Mons. Say had always kept the important distinction he has here made in view. But in his Chapter on Markets, (*sur les Debouchés*, book i. chap. 15), he has altogether lost sight of it. He there lays it down that if some commodities have fallen in their value, others must *of necessity* have risen in *theirs*, and that if the former are in excess and selling at a loss, the others *must be* deficient and yielding an undue profit; and the remedy which he proposes in such cases, is, not to diminish the quantity of those that are superabundant, but to increase the quantity of the rest, under the notion that by restoring the proportion between them, the profit on both would likewise be restored to its former rate.

Now this doctrine is a notable instance of that

confusion between the two subjects of interchange and distribution which has been already adverted to. Profit does not depend upon the proportion in which commodities are exchanged with each other (seeing that the same proportion may be maintained under every variety of profit), but upon the proportion which goes to wages, or is required to cover the prime cost, and which is in all cases determined by the degree in which the sacrifice made by the purchaser (or the labour's worth which he gives) in order to acquire a commodity, exceeds *that* made by the producer, in order to bring it to market. The diminished profit on some does not, as Mons. Say imagines, create any increase of profit upon the others; and, consequently, to augment the quantity of the latter, would restore the proportion between them, not as Mons. Say anticipates, by raising the value of the depressed ones, but by sinking the value of the whole together.

The conclusion, however, at which Mons. Say arrives is, that although there may be an over-production of some commodities, *a glut* or an over-production of all commodities, in which *all* are selling at a loss, *is impossible.*

In a very able work recently published on "Money and Morals," by Mr. John Lalor, this error of Mons. Say has been specially pointed out and remarked upon. It is, however, *there* ascribed to his having argued upon assumptions which are applicable to a state of barter, but inapplicable to a state in which barter is superseded by the use of a currency, when commodities are universally exchanged for money, and cease to be exchanged with each other. But if it be true, as has been before shown, that the circumstances which govern *distribution* are altogether different from

those which govern *interchange*—a glut, which is a condition of things involving a faulty distribution, or one in which commodities are not worth the labour they have cost, might very possibly exist even in a state of barter.—*Editor*.

CHAPTER VII.

ON THE DEFINITION AND APPLICATION OF TERMS BY MR. RICARDO.

ALTHOUGH it must be allowed that the criterion of value which Mr. Ricardo has endeavoured to establish is an incomplete one, yet he has conferred an important benefit on the science of political economy, by drawing a marked line of distinction between riches and value. A difference has perhaps been felt by most writers, but none before him had so strongly marked it, and attached so much importance to it. He agrees entirely with Adam Smith in the following definition of riches: "Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life." * And he justly adds this observation: "Value, then, essentially differs from riches; for value depends not on abundance, but on the difficulty or facility of production." † He subsequently says, "Although Adam Smith has given the correct description of riches which I have more than once noticed, he afterwards explains them differently, and says that a man must be rich or poor, according to the quantity of labour which he can afford to purchase. Now this description

* Wealth of Nations, b. i. c. v. p. 43. 6th edit.
† Polit. Econ. c. xx. p. 320. 3d ed.

differs essentially from the other, and is certainly incorrect; for suppose the mines were to become more productive, so that gold and silver fell in value, from the greater facility of production; or that velvets were to be manufactured by so much less labour than before, that they fell to half their former value; the riches of all those who purchased these commodities would be increased; one man might increase the quantity of his plate, another might buy double the quantity of velvet; but with the possession of this additional plate and velvet, they could employ no more labour than before, because, as the exchangeable value of velvet and of plate would be lowered, they must part with proportionably more of these species of riches to purchase a day's labour. Riches then cannot be estimated by the quantity of labour which they will purchase."*

These remarks of Mr. Ricardo appear to me to be most just. If riches consist of the necessaries, conveniences, and luxuries of life, and the same quantity of labour will at different times, and under different circumstances, produce a very different quantity of the necessaries, conveniences, and luxuries of life, then it is quite clear that the power of commanding labour, and the power of commanding the necessaries, conveniences, and luxuries of life, are essentially distinct. One, in fact, is a description of value, and the other of wealth.

* Polit. Econ. c. xx. p. 326, 3rd edit.—It may be remarked, by the way; that Mr. Ricardo here uses labour as a measure of value in the sense in which I think it ought always to be used, and not according to his own theory. He measures the exchangeable value of the plate and velvet, not by the quantity of labour worked up in them, but by the quantity they will command or employ.

But though Mr. Ricardo has fully succeeded in showing that Adam Smith was incorrect in confounding wealth and value, even according to his own descriptions of them; yet he has nowhere succeeded in making out the propriety of that peculiar view of value which forms the most prominent feature of his work.

He has not confined himself to the assertion, that what he calls the value of a commodity is determined by the quantity of labour worked up in it; but he states, in substance, the following proposition, that commodities exchange with each other according to the quantity of manual labour worked up in them, including the labour worked up in the materials and tools consumed in their production, as well as that which is more immediately employed.*

Now this proposition is contradicted by universal experience. The slightest observation will serve to convince us, that after making all the required allowances for temporary deviations from the natural and ordinary course of things, the class of commodities subject to this law of exchange is most extremely confined, while the classes not subject to it embrace the great mass of commodities. Mr. Ricardo, indeed, himself admits of considerable exceptions to his rule; but if we examine the classes which come under his exceptions, that is, where the quantities of fixed capital employed are different and of different degrees of duration, and where the periods of the returns of the circulating capital employed are not the same, we shall find that they are so numerous, that the rule may be considered as the exception, and the exceptions the rule.

* *Polit.* Econ. c. i. sec. iii. pp. 16, 18, 3rd edit.

Yet, notwithstanding these admissions, he proceeds with his rule as if there had been few or no exceptions to it: he especially estimates the value of wages by the quantity of human labour worked up in them; and as it is quite true, that if we look only to this element of value, the value of wages has a tendency to rise in the progress of cultivation and improvement, he has attributed the fall of profits which usually takes place in rich countries to the rise in the value of wages; and, in fact, has founded his whole theory of profits, which has been considered as the crowning achievement in the science, upon the rise and fall in the value of wages. "It has been my endeavour," he says, "to show throughout this work, that the rate of profits can never be increased but by a fall of wages." * Again he observes, "Profits—it cannot be too often repeated—depend on wages; not on nominal but real wages; not on the number of pounds which may be annually paid to the labourer, but on the number of days' work necessary to obtain these pounds." †

Real wages, then, according to Mr. Ricardo's definition, are determined by the quantity of labour worked up in the articles, which the labourer receives as a remuneration for his labour, whether food and clothing, or money.

Now the meaning here attached to the term real wages, on which Mr. Ricardo's theory of profits is made to depend, is quite unusual, and decidedly contradicts all the most obvious rules which suggest themselves for the application of terms in any science.

In the first place, no one we believe ever heard,

* Polit. Econ. c. vii. p. 137, 3rd edit.

† Id. p. 152.

before the time of Mr. Ricardo, this term used in conversation in such a manner, that an increase of real wages would generally imply a diminution in the means of subsistence and comfort among the labouring classes and their families. Yet this would be the case, according to the sense in which Mr. Ricardo uses the term. Speaking of the different situations of the landlord and the labourer, in the progress of society, after describing the increasing wealth of the landlord, he says, "The fate of the labourer will be less happy; he will receive more money-wages it is true, (and the money of Mr. Ricardo is here used as measuring what he calls real wages;) but his corn wages will be reduced; and not only his command of corn, but his general condition will be deteriorated." With a continued increase of real wages, "the condition of the labourer will generally decline, while the condition of the landlord will always be improved." *

Secondly, No writer anterior to Mr. Ricardo ever used the term wages, or real wages, as implying proportions. Profits, indeed, imply proportions: and the rate of profits had always justly been estimated by a per-centage upon the value of the advances. But wages had uniformly been considered as rising or falling, not according to any *proportion* which they might bear to the whole produce obtained by a certain quantity of labour, but by the greater or smaller quantity of any particular produce received by the labourer, or by the greater or smaller power which such produce would convey, of commanding the necessaries and conveniences of life. Adam Smith in particular had often used the term *real wages*, and

* *Polit.* Econ. c. v. p. 98, 3rd edit.

always in the most natural sense possible, as implying the necessaries and conveniences of life, which, according to the common language and feelings of men, might justly be considered as more *real* than money, or any other particular article in which the labourer might be paid. And the use of the term, in this sense, by Adam Smith, and most other political economists, necessarily made the new interpretation given to it more strange, and more unwarranted.

Thirdly, There were no objections to the sense in which the term was before applied. It was both natural and useful. Nor was a new interpretation of it wanted for the purpose of explanation. All the effects of the wages of labour upon profits might have been clearly described, by stating, that profits are determined by the proportion of the whole produce which goes to pay the wages of labour, without calling this proportion, whether small or great in quantity, *the real wages of labour*, and without asserting that, as the value of wages rises, profits must proportionably fall. That profits are determined by the proportion of the whole produce which goes to pay the wages of labour, is a proposition, which, when correctly explained, will be found to be true, and to be confirmed by universal experience; while the proposition, that as the value of wages rises profits proportionably fall, cannot be true, except on the assumption that commodities, which have the same quantity of labour worked up in them, are always of the same value—an assumption which probably will not be found to be true in one case out of five hundred; and this, not from accidental or temporary causes, but from that natural and necessary state of things, which, in the progress of civilisation and improvement,

tends continually to increase the quantity of fixed capital employed, and to render more various and unequal the times of the returns of the circulating capital. The introduction, therefore, of a new meaning of the term *real wages*, has not certainly the recommendation of being more useful.

Fourthly, The new sense in which the term real wages is used, is not maintained with consistency, or applied to old facts and opinions, with a proper allowance for the change that has been made. This is almost unavoidable, when old terms, which are quite familiar in one sense, are applied in another and different sense. It is particularly remarkable in Mr. Ricardo's use of his artificial money, which is meant to be the measure of real wages. Thus, he says, "It may be proper to observe, that Adam Smith, and all the writers who have followed him, have maintained, that a rise in the price of labour would be uniformly followed by a rise in the price of all commodities. The preceding observations seem to prove that there are no grounds for such an opinion, and that only those commodities would rise which had less fixed capital employed upon them than the medium in which price was estimated, and that all those which had more would positively fall in price when wages rose. On the contrary, if wages fell, those commodities only would fall which had a less proportion of fixed capital employed upon them than the medium in which price was estimated; all those which had more would positively rise in price." *

Now all these effects of a rise or fall in the wages of labour, depend entirely upon wages being estimated in Mr. Ricardo's imaginary money. Estimated in

* *Polit.* Econ. c. i. sec. vi. p. 45, 3rd edit.

this way, and in this way alone, Mr. Ricardo's statement would be correct. But neither Adam Smith nor any of his followers, down to the time of Mr. Ricardo, ever thought of estimating the price of wages in this way. And estimating them in the way to which they were always accustomed, that is in money, as they found it, they are quite justified in what they have said. According to Adam Smith, at least, who estimates the value of commodities by the quantity of labour which they will command, if the money wages of labour universally rise, the value of money proportionably falls; and when the value of money falls, Mr. Ricardo himself says, that the prices of goods always rise.

The difference, therefore, between Mr. Ricardo and Adam Smith in this case, arises from Mr. Ricardo's forgetting that he was using the term price of labour in a different sense from that in which it was used in the proposition objected to.

In the same manner, Mr. Ricardo's very startling proposition respecting the effects of foreign trade, namely, that "No extension of foreign trade will immediately increase the amount of *value* in a country," arises entirely from his using the term value in a different sense from that in which it had been used by his predecessors.

If the value of foreign commodities imported is to be estimated by the quantity of labour worked up in the commodities sent out to purchase them, then it is quite true that, whatever may be the returns, their value is unsusceptible of increase. But if the value of foreign commodities imported be estimated in the way in which they had ever been estimated before, that is, either in the money, in the labour, or in the

mass of commodities which they would command when brought home, then there cannot be the least doubt that the *immediate* effect of a prosperous venture which gives great profits to the merchants concerned would be to increase the amount of value in the country. The value of the returns compared with the value of the outgoings would, in this particular trade, be greater than usual; and it is quite certain, that this increase of value in one quarter would not necessarily be counterbalanced by a decrease of value in any other. Practically, indeed, nothing is more usual than a simultaneous rise in the value of the great mass of commodities from a prosperous trade, whether this value be estimated in money or in labour.

It must be allowed, then, that Mr. Ricardo has been very far from cautious in the definition and application of his terms, in treating of some of the most fundamental principles of political economy; and this is probably one of the reasons why many of the readers of his work have found great difficulty in understanding it. When old and very familiar terms are used in a new sense, it is scarcely possible for the writer to be always consistent in their application, and extremely difficult to the reader always to be aware of the sense meant to be affixed to them.

SUPPLEMENTARY REMARKS.

Mr. Ricardo has, with Adam Smith, adopted labour as the true standard of cost; but he has applied it to the *producing cost* only. He would no doubt have perceived that it is equally applicable as a measure

of *cost to the purchaser*, if he had given *that* interpretation to the term *value*, instead of adopting Adam Smith's definition of it, which makes it consist of the mere relation of one commodity to another.

But Mr. Ricardo has not consistently adhered to that definition, for he has used the term value in a *positive* as well as a *relative* sense. In the preamble to his opening chapter, he speaks of it as "the proportion in which commodities exchange with each other;" but in the very same chapter he says, that "Commodities become more or less valuable in proportion as more or less (*actual*) labour is bestowed on their production;" and in various other parts of his work, he uses similar language, viz., to the effect, that *value* depends upon *cost of production*. Now, suppose that all commodities could be brought to market with one half the labour that was before required to produce them, their value would then fall one half (which Mr. Ricardo elsewhere admits would be the case), and yet this circumstance would not necessarily alter the proportion in which they exchanged with each other. We have here therefore Mr. Ricardo's own authority against himself, that value is not, as he had at first represented it to be, merely a relation between different commodities. —*Editor*.

CHAPTER VIII.

ON THE DEFINITION AND APPLICATION OF TERMS BY MR. MILL, IN HIS "ELEMENTS OF POLITICAL ECONOMY."

MR. MILL, in his "Elements of Political Economy," professedly lays no claim to discovery. His main object seems to have been to give the substance of Mr. Ricardo's work in a more concentrated form, and with a better arrangement; and this object he has accomplished. In the definition and application of his terms he nearly follows Mr. Ricardo; but it may be useful to notice a few cases, where he has either made the errors of Mr. Ricardo's definitions more prominent, or has altered without improving them.

On his first approach to the question of value, he describes the causes which determine it much more inaccurately than Mr. Ricardo. He says, that "the value of commodities is determined by the *quantity* of capital and labour necessary to produce them." * But this is obviously untrue and quite inconsistent with what he says afterwards respecting the regulator of value. It may be correct to estimate the value of labour by its *quantity;* but how can we estimate the

* *Elements of* Polit. Econ. c. ii. sec. iii. p. 75, 2nd edit.

value of different kinds of machinery, or different kinds of raw materials by their *quantity?* The *quantity* of raw material contained in a coarse and thick piece of calico, as compared with a very fine and thin piece of muslin, worked up by the same quantity of labour, may be four or five times greater, while the value of it, and the degree in which it affects the value of the commodity, may be actually less. We cannot, in short, measure the value of any product of labour by its bulk or quantity; and it must, therefore, be essentially incorrect to say, that the value of commodities is determined by the quantity of capital and labour necessary to produce them.

Proceeding afterwards to investigate more minutely what it is, which, in the last resort, determines the proportion in which commodities exchange for one another, he observes, that "as all capital consists in commodities, it follows, of course, that the first capital must have been the result of pure labour. The first commodities could not be made by any commodities existing before them. But if the first commodities, and of course the first capital, were the result of pure labour, the value of this capital, the quantity of other commodities for which it would exchange, must have been estimated by labour. This is an immediate consequence of the proposition which we have just established, that where labour was the sole instrument of production, exchangeable value was determined by the quantity of labour which the production of the commodity required. If this be established, it is a necessary consequence that the exchangeable value of all commodities is determined by quantity of labour."*

* Elements of Polit. Econ. c. iii. sec. ii. p. 92.

Now this necessary consequence, which is here so confidently announced, does not appear to follow either from this statement, or from anything which is said subsequently. Allowing that the first commodities, if completed and brought into use immediately, might be the result of pure labour, and that their value would therefore be determined by the quantity of that labour; yet it is quite impossible that such commodities should be employed as capital to assist in the production of other commodities, without the capitalist being deprived of the use of his advances for a certain period, and requiring a remuneration in the shape of profits.

In the early periods of society, on account of the comparative scarcity of these advances of labour, this remuneration would be high, and would affect the value of such commodities to a considerable degree, owing to the high rate of profits. In the more advanced stages of society, the value of capital and commodities is largely affected by profits, on account of the greatly increased quantity of fixed capital employed, and the greater length of time for which much of the circulating capital is advanced before the capitalist is repaid by the returns. In both cases, the rate at which commodities exchange with each other, is essentially affected by the varying amount of profits. It is impossible, therefore, to agree with Mr. Mill, when he says, "It appears by the clearest evidence, that quantity of labour in the last resort determines the proportion in which commodities exchange for one another." *

On the same grounds Mr. Mill is quite incorrect, in calling capital hoarded labour. It may, perhaps, be

* *Elements* of Polit. Econ. c. iii. sec. ii. p. 94.

called hoarded labour and profits; but certainly not hoarded labour alone, unless we determine to call profits labour.

In a work like that of Mr. Mill, which has so much the air of logical precision, one should have hoped and expected to find superior accuracy in the definitions, and great uniformity in the application of his terms, in whatever sense he might determine to use them; but in this the reader will be disappointed. It is difficult, for instance, to infer from the language of Mr. Mill, whether a commodity is to be considered as altering in its value in proportion to its costs of production, or in proportion to its power of commanding other commodities, and they are certainly not the same.

At the commencement of his seventh section, of chap. iii., entitled "What regulates the Value of Money," he says:

"By the value of money is here to be understood the proportion in which it exchanges for other commodities, or the quantity of it which exchanges for a certain quantity of other things."

This is, to be sure, a very lax description of the value of money, very inferior in point of accuracy, even to what would be understood by *the general power of purchasing*. What are the things a certain quantity of which is here alluded to? and if these things change in the costs of their production, will money be proportionally affected?

But we have a different and better description of value in the next section. It is there said, that "gold and silver are, in reality, commodities. They are commodities for the attainment of which labour and capital must be employed. It is cost of production

which determines the value of these as of other ordinary productions." *

Now, if cost of production determines the value of money, it follows that, while the cost of producing a given quantity of money remains the same, its value remains the same. But it is obvious that the value of money may remain the same in this sense of the term, while, owing to the alterations which may be taking place in the costs of producing the commodities alluded to, the quantity of other things for which it will exchange may be essentially different. Which of the two, then, is the true criterion of the value of money? It is surely most desirable that the student in political economy should not be left in the dark on this subject; yet Mr. Mill gives him no assistance; and he is left to decide between two very different meanings as well as he can.

But perhaps the most serious confusion of terms which Mr. Mill has fallen into, is in relation to demand and supply; and as he has a more original and appropriate claim to this error than any other English writer, and its belief leads to very important consequences, the notice of it is particularly called for.

In the first place, no person can have turned his attention, in the slightest degree, to the language of political economy, either in conversation or books, without being fully aware that the term demand is used in two very distinct senses; one implying the quantity of the commodity consumed, and the other the amount of sacrifice which the purchasers are willing to make in order to obtain a given portion of it. In the former sense, an increase of demand is but very uncertainly connected with an increase of value,

* Sec. viii. p. 133.

or a further encouragement to production, as in general the greatest increase of such kind of demand takes place in consequence of a very abundant supply and a great fall in value. It is the other sense alone to which we refer, when we speak of the demand compared with the supply as determining the values and prices of commodities; and in this latter sense of the term demand, which perhaps is in the most frequent use, an increase of supply is so far from increasing demand that it diminishes it, while a diminution of demand increases it.

Secondly, it has been generally agreed, that when the quantity of a commodity brought to market is neither more nor less than sufficient to supply all those who are able and willing to give the natural and necessary price for it, the demand may then, and then only, be said to be equal to the supply; because if the quantity wanted by those who are able and willing to give the natural price exceed the supply, the demand is said to be greater than the supply, and the price rises above the ordinary costs of production; and if the quantity wanted by those who are able and willing to give the natural price fall short of the supply, the demand is said to be less than the supply, and the price falls below the ordinary costs of production. This is the language of Adam Smith, and of almost all writers on political economy, as well as the language of common conversation when such subjects are discussed. Indeed it is difficult to conceive in what other sense it could, with any propriety, be said that the supply was equal to the demand, because in any other sense than this, the supply of a commodity might be said to be equal to the demand, whether it were selling at double or the half of its cost.

Thirdly, it must be allowed, that according to the best authorities in books and conversation, what is meant by the glut of a particular commodity is such an abundant supply of it compared with the demand as to make its price fall below the costs of production; and what is meant by a *general* glut, is such an abundance of a large mass of commodities of different kinds, as to make them all fall below the natural price, or the ordinary costs of production, without any proportionate rise of price in any other equally large mass of commodities.

With these preliminary definitions, we may proceed to examine some of the arguments by which Mr. Mill endeavours to show that demand and supply are always equal in the aggregate; that an over supply of some commodities must always be balanced by a proportionate under supply of others; and that, therefore, a general glut is impossible.

If Mr. Mill had always strictly adhered to that meaning of the term *demand for a commodity* which signifies the quantity consumed, he might have maintained the position with which he heads the third section of his fourth chapter, namely, *that consumption is co-extensive with production*. This, however, is, in reality, no more than saying, that if commodities were produced in such abundance as to be sold at half their cost of production, they would still be somehow or other consumed—a truism equally obvious and futile. But Mr. Mill has used the term demanded in such a way, that he cannot shelter himself under this truism. He observes, "It is evident that whatever a man has produced, and does not wish to keep for his own consumption, is a stock which he may give in exchange for other commodities. His will, therefore, to purchase,

and his means of purchasing, in other words, his demand, is exactly equal to the amount of what he has produced, and does not mean to consume." *

Here it is evident that Mr. Mill uses the term demand in the sense of the amount of sacrifice which the purchaser is able to make, in order to obtain the commodity to be sold, or, as Mr. Mill correctly expresses it, his means of purchasing. But it is quite obvious that his means of purchasing other commodities are not proportioned to the *quantity* of his own commodity which he has produced, and wishes to part with; but to its *value in exchange;* and unless the value of a commodity in exchange be proportioned to its quantity, it cannot be true that the demand and supply of every individual are always equal to one another. According to the acknowledged laws of demand and supply, an increased quantity will often lower the value of the whole, and actually diminish the means of purchasing other commodities.

Mr. Mill asks, "What is it that is necessarily meant, when we say that the supply and the demand are accommodated to one another? It is this (he says) that goods which have been produced by a certain quantity of labour, exchange for goods which have been produced by an equal quantity of labour. Let this proposition be attended to and all the rest is clear. Thus, if a pair of shoes is produced by an equal quantity of labour as a hat, so long as a hat exchanges

* Elements of Polit. Econ. c. iv. s. iii. p. 225. If the demand of every individual were equal to his supply, in the correct sense of the expression, it would be a proof that he could always sell his commodity for the costs of production, including fair profits; and then even a *partial* glut would be impossible. The argument proves too much. Mr. Mill does not appear to have seen that supply must always be proportioned to *quantity*, and demand to *value*.

for a pair of shoes, so long the supply and demand are accommodated to one another. If it should so happen that shoes fell in value, as compared with hats, which is the same thing as hats rising in value, as compared with shoes, this would imply that more shoes had been brought to market, as compared with hats. Shoes would then be in more than due abundance. Why? Because in them the produce of a certain quantity of labour would not exchange for the produce of an equal quantity. But for the very same reason, hats would be in less than due abundance, because the produce of a certain quantity of labour in them would exchange for the produce of more than an equal quantity in shoes."*

Now this proposition obviously involves a most unwarranted definition of what is meant, when we say that the supply and the demand are accommodated to one another. It has already been stated that what has hitherto been meant, both in conversation and in the writings of the highest authority on political economy, by the supply being accommodated to, or equal to, the demand, is, that the supply is just sufficient to accommodate all those who are able and willing to pay the *necessary price for it*, in which case, of course, it will always sell at what Adam Smith calls its natural price.

Now, unless Mr. Mill is ready to maintain that people would still say that the supply of a commodity was accommodated to the demand for it, whether it were selling at three times the cost of its production, or only one-third of that cost, he cannot maintain his definition. He cannot, for instance, deny that hats and shoes may be both selling below the costs of

* Elem. of Polit. Econ. c. iv. s. iii. p. 233.

production, although they may exchange for each other in such proportions, that the hats produced by a certain quantity of labour may exchange for the shoes produced by the same quantity of labour. But can it be said, on this account, that the supply of hats is suited to the demand for hats, or the supply of shoes suited to the demand for shoes, when they are both so abundant that neither of them will exchange for what will fulfil the conditions of their continued supply? And supposing that, while both are selling below the costs of production, shoes should fall still lower than hats, what would be the consequence? According to Mr. Mill, "shoes would then be in more than due abundance. Why? Because in them the produce of a certain quantity of labour would not exchange for the produce of an equal quantity. But for the very same reason hats would be in less than due abundance, because the produce of a certain quantity of labour in them would exchange for the produce of more than an equal quantity in shoes." *

It will be most readily allowed that, in the case supposed, shoes will be in more than due abundance, though not for the reason given by Mr. Mill. But how can it be stated, with the least semblance of truth, that hats would be in less than due abundance, when, by the very supposition, they are selling at a price which will not re-purchase the quantity of labour employed in producing them.

Nothing can show more distinctly than the very case here produced by Mr. Mill, that his proposition or definition, which is to clear up everything, is wholly inapplicable to the question; and that to represent the abundance or deficiency of the supply of one

* Elem. of Polit. Econ. c. iv. s. iii. p. 234.

commodity, as determined by the deficiency or abundance of another, is to give a view of the subject totally different from the reality, and calculated to lead to the most absurd conclusions. There is hardly any stage of society subsequent to the division of labour, where the state of the supply compared with the demand of shoes is essentially affected by the state of the supply compared with the demand for hats; and in the present state of society in this country, where the question of a general glut has arisen, it is still more irrelevant to advert to any other objects as efficient causes of demand for a particular commodity, except those which relate to the costs of producing it.

The hop-planter who takes a hundred bags of hops to Weyhill fair, thinks little more about the supply of hats and shoes than he does about the spots in the sun. What does he think about, then? and what does he want to exchange his hops for? Some perhaps might be of opinion that it would show great ignorance of political economy, to say that what he wants is money; and yet, it really is money which he does want, and which he must obtain, in the present state of society, in exchange for the great mass of what he has brought to market, or he will be unable to carry on his business as a hop-planter; and for these specific reasons; first, that he must pay the rent of his hop-grounds in money; secondly, that he must pay for his poles, his bags, his implements, &c., &c., in money; thirdly, that he must pay the numerous labourers which he employs on his grounds, during the course of the next year, in money; and fourthly, that it is in money, and in money alone of all the articles brought to the fair, that he can calculate his profits.

It is perfectly true, that both the landlords and the

labourers who are paid in money will finally exchange it for something else, as no one enjoys money *in kind*, except the miser; but the landlord who may spend perhaps a good deal in post-horses, dinners at inns, and menial servants, would be little likely to accept from the hop-planter the articles which he could get at the fair in exchange for his hops; and though the expenditure of the labourer is much more simple, and may be said to consist almost entirely in food and clothing, yet it is quite certain that the power of commanding a given quantity of labour can never be represented, with any approach towards correctness, by a given quantity of corn and clothing. As a matter of fact, the labourer in this country is paid in money; and while it often happens that for many years together the money-price of labour remains the same, the money-price of corn is continually altering, and the labourer may, perhaps, receive the value of twice as much corn in one year as he does in another.

What an entirely false view, then, does it give of the real state of things, what a complete obscuration instead of illustration of the subject is it, to represent the demand for shoes as determined by the supply of hats, or the demand for hops by the supply of cloth, cheese, or even corn. In fact, the doctrine that one half of the commodities of a country necessarily constitute an adequate market or effectual demand for the other half, is utterly without foundation. The great producers who are the great sellers, before they can venture to think about the supplies of hats, shoes, and cloth, on which they may perhaps expend a tenth part of a tenth part of what they have brought to market, must first direct their whole attention to the replacing of their capital, and to the question whether, after

replacing it, they will have realised fair profits. Whatever may be the number of intermediate acts of barter which may take place in regard to commodities—whether the producers send them to China,* or sell them in the place where they are produced: the question as to an adequate market for them, depends exclusively upon whether the producers can replace their capitals with ordinary profits, so as to enable them successfully to go on with their business.

But what are their capitals? They are, as Adam Smith states, the tools to work with, the materials to work upon, and the means of commanding the necessary quantity of labour. Colonel Torrens, therefore, is quite right, when he says, "that an increased production of those articles which do not form component parts of capital, cannot create an increased effectual demand, either for such articles themselves, or for those other articles which do form component parts of capital."† And, perhaps, he may be considered as making some approaches towards the truth, when he says, that "effectual demand consists in the power and inclination, on the part of consumers, to give for commodities, either by immediate or circuitous barter,

* Foreign trade is, no doubt, mainly a trade of barter; but the question whether British woollens find an adequate market in the United States, does not depend upon their purchasing the same quantity of tobacco as usual, but upon whether the tobacco, or whatever the returns may be, will purchase the British money or the British labour necessary to enable the woollen manufacturer to carry on his business successfully. If both woollen manufacturers and tobacco are below the costs of production in money or labour, both parties may be carrying on a losing trade, at the time when the rate at which the two articles exchange with each other is the same as usual. This is the answer to the pamphlet, which M. Say addressed to me some years ago.

† On the Production of Wealth, c. vi. s. vi. p. 349.

some greater proportion of all the ingredients of capital than their production costs."* But in this latter position, he is still very far from representing what actually takes place. When we consider how much labour is directly employed in the production of the great mass of commodities, and recollect further, that raw materials and machinery, the other two branches of capital, are mainly produced by labour, it is obvious that the power of replacing capital will mainly depend on the power of commanding labour: but a given quantity of what Colonel Torrens calls the ingredients of capital, can never represent a given quantity of labour; and consequently, if a given quantity of labour be necessary in any production, a very different quantity of the ingredients of capital would be required at different times, to occasion the same effectual demand for it. It is far, therefore, from being true, that if the ingredients of capital, represented by a hundred and ten quarters of corn, and a hundred and ten suits of clothing, were increased to "two hundred and twenty quarters of corn, and two hundred and twenty suits of clothing, the effectual demand for the article would be doubled."†

It is still further from the truth, "that increased supply is the one and only cause of increased effectual demand;" ‡ and most happy is it for mankind that this is not true. If it were, how difficult would it be for a society to recover itself, under a temporary diminution of food and clothing! But by a kind provision of nature, this diminution, within certain limits, instead of diminishing, will increase effectual demand. The theory of demand and supply, shows that the food and

* On the Production of Wealth, c. vi. s. vi. p. 345.
† *Ibid.* ‡ *Ibid.* p. 348.

clothing thus diminished in quantity, will rise in value; and universal experience tells us, that, as a matter of fact, the money-price of the remaining food and clothing will for a time rise in a greater degree than in proportion to the diminution of its quality, while the money-price of labour may remain the same. The necessary consequence will be, the power of setting in motion a greater quantity of productive industry than before.*

There is no assumption so entirely fatal to a just explanation of what is really taking place in society, as the assumption, that the natural wages of labour in food and clothing are always nearly the same, and just about sufficient to maintain a stationary population. All the most common causes of an acceleration or retardation in the movements of the great machine of human society, involve variations, and often great variations, in the real wages of labour. Commodities in general, and corn most particularly, are continually rising or falling in money-price, from the state of the supply as compared with the demand, while the money-price of labour remains much more nearly the same. In the case of a rise of corn and commodities, the real wages of common day-labour are necessarily diminished: the labourer obtains a smaller proportion of

* It is quite astonishing that political economists of reputation should be inclined to resort to any kind of illustration, however clumsy and inapplicable, rather than refer to money. They seem to be afraid of the imputation of thinking that wealth consists in money. But though it is certainly true that wealth does not consist in money, it is equally true that money is a most powerful agent in the distribution of wealth; and those who, in a country where all exchanges are practically effected by money, continue the attempt to explain the principles of demand and supply, and the variations of wages and profits, by referring chiefly to hats, shoes, corn, suits of clothing, &c., must of necessity fail.

what he produces; profits necessarily rise; the capitalists have a greater power of commanding labour; more persons are called into full work; and the increased produce which follows is the natural remedy for that state of the demand and supply, from whatever cause arising, which had occasioned the temporary rise in the money-price of commodities. On the other hand, if corn and other commodities fall in money-price, as compared with the money-price of labour, it is obvious that the day-labourer, who gets employment, will be able to buy more corn with the money which he receives; he obtains a larger proportion of what he produces; profits necessarily fall; the capitalists have a diminished power of commanding labour; fewer persons are fully employed; and the diminished production which follows, is the natural remedy for that state of the demand and supply, from whatever cause arising, which occasioned the temporary fall in the money-price of commodities. The operation of these remedial processes to prevent the continuance of excess or defect, is so much what one should naturally expect, and is so obviously confirmed by general experience, that it is inconceivable that a proposition should have obtained any currency which is founded on a supposed law of demand and supply diametrically opposed to these remedial processes.

It will be recollected, that the question of a glut is exclusively whether it may be general, as well as particular, and not whether it may be permanent as well as temporary. The causes above-mentioned act powerfully to prevent the permanence either of glut or scarcity, and to regulate the supply of commodities so as to make them sell at their natural prices. But this tendency, in the natural course of things, to cure

a glut or a scarcity, is no more a proof that such evils have never existed, than the tendency of the healing processes of nature to cure some disorders without assistance from man, is a proof that such disorders have not existed.

But to return more particularly to Mr. Mill. After asserting that the supply is the demand, and the demand is the supply, so frequently, that the unwary reader must feel quite at a loss to know which is which, he comes to a distinct conclusion, which is so directly contradicted both by theory and experience, as to show either that his premises must have been false, or that what he calls his indissoluble train of reasoning consists of mere unconnected links. He says, "It is therefore universally true, that as the aggregate demand and aggregate supply of a nation never can be unequal to one another, so there never can be a superabundant supply in particular instances, and hence a fall in exchangeable value beyond the cost of production, without a corresponding deficiency of supply, and hence a rise in exchangeable value beyond cost of production in other instances. The doctrine of the glut, therefore, seems to be disproved by a chain of reasoning perfectly indissoluble." *

While commodities are merely compared with each other, it is unquestionably true that they cannot all fall together, or all rise together. But when they are compared with the cost of production, as they are in the above passage, it is evident that, consistently with the justest theory, they may all fall or rise at the same time. For what are the costs of production? They are either the quantity of *money* necessary to pay the labour worked up in the commodity, and in

* Elem. of Polit. Econ. c. iv. s. iii. p. 234.

the tools and materials consumed in its production, with the ordinary profits upon the advances for the time that they have been advanced; or they are the quantity of labour in kind required to be worked up in the commodity, and in the tools and materials consumed in its production with such an additional quantity as is equivalent to the ordinary profits upon the advances for the time that they have been advanced.

Now it surely cannot be denied theoretically, that all commodities produced in this country may fall in comparison with a commodity produced in Mexico. As little can it be denied theoretically that all commodities produced by British labour may fall as compared with that labour, either from an unusually increased supply of such commodities, or a diminution of demand for them. And when, from these theoretical concessions, required by the universally acknowledged laws of demand and supply, we turn to the facts, we see with our own eyes, and learn from authority which there is no reason whatever for doubting, that a very large mass of commodities does at times fall below the cost of production, whether those costs be estimated in money or labour, without the slightest shadow of pretence for saying that any other equally large mass is raised proportionally above the costs of production.

Even within the very last year,* it is a matter of the most public notoriety that the cotton manufactures, the woollen manufactures, the linen manufactures, the silk manufactures, have all fallen below the costs of production, including ordinary profits. To go no further, the amount of these manufactures, taken together, must, on a rough estimate, exceed

* This was written in 1827.

seventy millions of pounds sterling. And if this mass of commodities, partly from over production and over trading, and partly from their necessary consequences, the shock to confidence and credit, and the diminution of bills of exchange and currency, have fallen below the ordinary costs of production, what man is there credulous enough to believe that there must have been, according to the language of Mr. Mill, "a corresponding deficiency of supply, and hence a rise of exchangeable value beyond cost of production in other instances?" I doubt, indeed, much whether satisfactory evidence could be brought to show that a single million's worth of goods has risen above the cost of production, while seventy millions' worth have fallen below it.

Consequently, if the definition of a general glut be a fall in a great mass of commodities below the costs of production, not counterbalanced by a proportionate rise of some other equally large mass of commodities above the costs of production, Mr. Mill's conclusion against the existence of a general glut, founded on "a chain of reasoning perfectly indissoluble," seems to be utterly without foundation.

On the subject of the wages of labour, Mr. Mill has added his authority to the peculiar views and language of Mr. Ricardo. He says, "Whatever the share of the labourer, such is the rate of wages; and, *vice versâ*, whatever the rate of wages, such is the share of the commodity or commodities' worth which the labourer receives." * Perhaps the term *rate of wages* used by Mr. Mill to express the proportion of the produce which falls to the share of the labourer is in some respects preferable to the

* Elements of Polit. Econ. c. ii. s. ii. p. 41.

term *real wages*, used by Mr. Ricardo for the same purpose; but still it is objectionable, because it is an old and familiar term used in an entirely new sense. When the expressions high or low rates of wages were used, before the time of Mr. Ricardo and Mr. Mill, no one understood them to mean the proportion of the produce awarded to the labourer. In fact, this meaning had not been before conveyed by any appropriate terms in the language of political economy; yet it is a meaning the expression of which was much wanted in explaining the theory of profits. To express it, therefore, a new term should certainly have been chosen, and not an old one, which was familiar in a different sense. There seems to be no objection to the term *proportionate wages*, which has been used by Mr. Macculloch.

On the whole, it must be allowed, that Mr. Mill in his "Elements of Political Economy," has but little attended to the most obvious rules which ought to guide political economists in the definition and application of their terms. They are often unsanctioned by the proper authorities, and rarely maintained with consistency.

SUPPLEMENTARY REMARKS.

Mr. Mill's doctrine of *demand and supply* affords another remarkable instance of that confusion between *interchange* and *distribution*, which has been more than once alluded to.

An increase or diminution of demand, according to

Adam Smith, and as popularly understood, implies (as stated in Definition 52) a disposition on the part of purchasers to make a *greater* or *less* sacrifice in order to obtain the things they want, from whatever cause arising. It belongs therefore properly to the latter branch of the subject; but Mr. Mill has applied it to the *former*, by representing the equality of demand and supply to consist in the interchange of different commodities in exact proportion to their respective costs.

"What we mean," he says in the passage before quoted, (page 65), "when we say that the demand and supply are accommodated to one another, is this—that goods which have been produced by a certain quantity of labour exchange for goods that have been produced by an equal quantity of labour."

Now suppose all commodities to be selling so as to yield the ordinary rate of profit, whatever that might be at the time, and that general prices were to fall, say ten per cent., such fall being common to them all would not affect their relative exchangeability, which would remain the same as before. In the language of Mr. Mill, the goods which had been produced by a certain quantity of labour, would still continue to exchange with others that had been produced by an equal quantity of labour; but it would not be true to say, as Mr. Mill would have us say, that the demand and supply were equally accommodated to each other; since it is obvious that no such fall could have taken place without some change in the relation between the demand and the supply to have occasioned it.

We may go a step further, and suppose profits to be reduced to *zero*, or even to fall below it, and that all

commodities were selling below their cost of production; which is what usually happens during the prevalence of a money panic. To the extent to which such a fall would affect all things alike, their relation to each other would remain unaltered, but the *supply* would certainly very far exceed the *demand*, in the ordinary sense of those terms.

Such a state of things would, in fact, constitute what is called a *glut*, the possibility of which Mr. Mill denies, for he says:—

"There never can be a superabundant supply in particular instances, and hence a fall in exchangeable value *below the cost of production*, without a corresponding deficiency of supply, and hence a rise in exchangeable value *beyond the cost of production* in other instances."

This proposition might be true if we could here interpret value in the sense of a relation between different commodities, but we cannot so interpret it, for the words in italics connect it with cost, in reference to which the proposition is not true. It is true that if some commodities fall in value, all others will rise *relatively* to them; but it is not true that if the cost of the former be reduced, and they become cheaper to the purchaser, the cost of the others will therefore be increased, and they will become dearer to the purchaser. The cost and value of each commodity depends upon the quantity of labour required either to produce or to purchase it, and not upon the quantity of others that can be got in exchange for it.

If by a glut were meant an universal fall in the value of all commodities *relatively to each other*, Mr. Mill would be in the right, for such a state of things is obviously impossible; "But," as truly remarked

by Mr. John Stuart Mill, "a general superabundance does not mean a superabundance of commodities relatively to commodities, but a superabundance of all commodities relatively to money, the result of which is that they all fall in price, or become unsaleable. When this," he observes, "happens to one single commodity, there is said to be a superabundance of that commodity, and if that be a proper expression, there can be no impropriety in saying that there is a superabundance of all or most commodities, when all or most of them are in this same predicament." *

But what is essential to notice is, that a glut, in this sense of it, affects the distribution of commodities, and not (should the same fall take place in them all), their relative exchangeability.

Mr. Lalor, in his interesting work on "Money and Morals," before referred to (page 46), seems to think that no such state of things as a glut could exist except under a monetary system. It is no doubt true that the quantity of money offered for commodities at all times determines not only their relative exchangeability, but likewise the demand for them and their distribution, and consequently, whether they are excessive or not; but even in the absence of money, under a system of pure barter, imagining such a state of things to exist, something must determine the demand for commodities and their distribution, and the question is, what is it that does this? Certainly not their mere interchange, or the bartering of them for each other in proportion to their respective costs, since such interchange might continue the same under every variety in their distribution; but, evidently,

* See Essays on some unsettled Questions in Political Economy, page 72.

the disposition of those who have incomes or revenues at their command (in whatever shape or form they may exist) to expend them on commodities, rather than in the direct maintenance of labour productive or non-productive; for, as Mr. Lalor truly observes (page 31)—

"If the amount of capital employed in production be greater than the amount of income devoted to expenditure, some of the capital must fail of its return."

This dependence of the demand for commodities upon the amount of revenues specially appropriated to their purchase, has not been generally noticed. It is well explained in the following extract from the Rev. Richard Jones's "Lectures on the Political Economy of Nations," page 78:—

"Picture to yourselves an European village in the tenth century, of which all the inhabitant artizans subsist on wages advanced to them, as independent workmen, by some neighbouring proprietor or proprietors, who purchase and consume the commodities they produce.

"Then let a capitalist, who advances the wages of some or all of them, appear, and, in due time, sell the commodities the workmen produce for him to the same proprietors.

"*It is clear that the continuous expenditure of the proprietors' revenue in such commodities is a condition, the fulfilment of which is essential to the continuous operations of the capitalist.* If there were no consumers ready to expend revenue in the purchase of the commodities his workmen produced, he must give up producing for sale, and, if he himself consumed the commodities so produced, his capital would not be replaced: it must soon be exhausted, and he must

cease to advance wages to his workmen. He has been but an agent to give the labourers the benefit of the expenditure of the revenues of the surrounding customers, in a new form and under new circumstances; and the real source of the workman's subsistence, pushed out of sight by the interference and advances of the capitalist, loses none of its vital importance. It still substantially secures food to the labouring classes, and so constitutes the ultimate support of the framework of society."

"It appears, therefore, that the existence of revenues in other hands, co-extensive with the value of the goods produced through capital employed, is essential to the continuous existence of bodies of non-agricultural labourers. The object of all production, however much or little aided by capital, is consumption, and the possibility of consumption rests upon the existence of such revenues, and of owners ready to expend them."

It may be here observed that all Mr. Jones's contributions to the science of wealth, are in a remarkable manner free from confusion as to the meaning of terms; for, first, he has carefully adhered to the sense which he has attached to such as he has been called upon to define; and, secondly, his method of investigating the subject, which is quite original, has preserved him from committing the errors into which other writers have fallen. All his reasonings are founded on facts and observation, and are not merely deductions from principles that are supposed to have been previously established.—*Editor.*

CHAPTER IX.

ON THE DEFINITION AND USE OF TERMS BY THE AUTHOR OF "A CRITICAL DISSERTATION ON THE NATURE, MEASURE, AND CAUSES OF VALUE."

IT might perhaps be thought unnecessary to notice the deviations from the most obvious rules for the use of terms in "A Critical Dissertation on the Nature, Measure, and Causes of Value," by an anonymous writer. But the great importance of the subject itself, the tone of scientific precision in which the dissertation is written, notwithstanding its fundamental errors, and the impression which it is understood to have made among some considerable political economists, seem to call for and justify attention to it.

The author, in his preface, observes, that "Writers on political economy have generally contented themselves with a short definition of the term value, and a distinction of the property denoted by it into several kinds, and have then proceeded to employ the word with various degrees of laxity. Not one of them has brought into distinct view the nature of the idea represented by this term, or the inferences which a full perception of its meaning immediately suggests; and the neglect of this preliminary has created

differences of opinion and perplexities of thought which otherwise could never have existed." *

Now it appears to me, that the author, at his first setting out, has in an eminent degree fallen into the very errors which he has here animadverted upon.

He begins by stating, very justly, that "value, in its ultimate sense, appears to mean the esteem in which any object is held;" and then proceeds to state, in the most lax and inconsequent manner, that "It is only when objects are considered together as subjects of preference or exchange that the specific feeling of value can arise. When they are so considered, our esteem for one object, or our wish to possess it, may be equal to, or greater, or less than our esteem for another; *it may, for instance, be doubly as great*, or, in other words, we would give one of the former for two of the latter. So long as we regarded objects singly, we might feel a great degree of admiration or fondness for them, but we could not express our emotions in any definite manner. When, however, we regard two objects, as subjects of choice or exchange, we appear to acquire the power of expressing our feelings with precision; we say, for instance, that one *a* is, in our estimation, equal to two *b*. . . . The value of *a* is expressed by the quantity *b*, for which it will exchange, and the value of *b* is, in the same way, expressed by the quantity of *a*." †

So, then, it appears, as a consequence of value, meaning the esteem in which an object is held, that if there were two sorts of fruit in a country, called *a* and *b*, both very plentiful in the summer, and both very scarce in the winter; and if in both seasons they were

* Preface, p. 5. † Dissertation on Value, c. i. p. 3.

to bear the same relation to each other, the feelings of the inhabitants with regard to the fruit *a* would be *expressed with precision*, by saying that, as it would always command the same quantity of the fruit *b*, it would continue to be of the same value—that is, would be held in the same estimation in summer as in winter.

It appears, further, that in a country where there were only deer, and no beavers or other products to compare them with, the specific feeling of value for deer could not arise among the inhabitants: although, on account of the high esteem in which they were held, any man would willingly walk fifty miles in order to get one. These are, to be sure, very strange conclusions, but they follow directly from the previous statements.

The author, however, nothing daunted, goes on to say, that "If from any consideration, or number of considerations, men esteem one *a* as highly as two *b*, and are willing to exchange the two commodities in that ratio, it may be correctly said that *a* has the power of commanding two *b*, or that *b* has the power of commanding half of *a*."

"The definition of Adam Smith, therefore, that the value of an object expresses the power of purchasing other goods which the possession of that object conveys, is substantially correct; and as it is plain and intelligible, it may be taken as the basis of our subsequent reasonings, without any further metaphysical investigation." *

In a critical dissertation on value, which is introduced with a heavy complaint against all preceding

* Dissertation on Value, c. i. p. 4.

political economists for neglecting the preliminary labour necessary to give a full perception of its meaning, it might naturally have been expected, that previous to the final adoption of the meaning in which it was intended to use the term throughout the dissertation, the consideration, or number of considerations, which induce men to prefer one object to another, or to give two *b* for one *a*, should be carefully investigated. But nothing of this kind is done. A definition of the value of an object by Adam Smith, which as he afterwards clearly shows, requires explanation and modification, is arbitrarily adopted, or, in the language of the author, is "taken as the basis of his subsequent reasonings, without any further metaphysical investigation."

That this first general description of value in exchange by Adam Smith does not, without further explanation, convey to the reader the prevailing meaning which he himself attaches to the term, is obvious in many passages of his work, and particularly in his elaborate inquiry into the value of silver during the four last centuries. He there shows, in the most satisfactory manner, that, in the progress of cultivation and improvement, there is a class of commodities, such as cattle, wood, pigs, poultry, &c., which, on account of their becoming comparatively more scarce and difficult of attainment, necessarily rise in value; yet he particularly states, that this rise in their value is not connected with any degradation in the value of silver,* although it is obvious that, other things being the same, a pound of silver would have a smaller power of purchasing those goods.

* Wealth of Nations, b. i. c. xi.

Nothing indeed can be clearer than that this general description of value requires further explanation. There is the greatest difference imaginable between an increased power in any object of purchasing other goods, arising from its scarcity, and the increased difficulty of procuring it; and the increase of its power to purchase other goods arising from the increased plenty of such goods and the increased facility of procuring them. Nor is it easy to conceive any distinction more vital to the subject of *value*, as the term is generally understood, or more necessary to "a full perception of its meaning."

Surely then the author, under all the circumstances of the case, was not justified in adopting this definition of Adam Smith without further investigation.

But his adoption of it in so unceremonious a manner, though quite inconsistent with the declarations in the preface, and most unpromising in regard to any improvement of the science which might have been expected from the dissertation, is by no means the gravest offence which he has committed in the opening of his subject.

Adam Smith's definition, taken as it stands, however imperfect it may be, would still serve as a rough but useful standard of value in those cases where, in using the most ordinary forms of expression, some kind of standard is tacitly referred to, and no other more accurate one had been adopted.

But how is this definition of Adam Smith to be interpreted? If we understand it in the sense usually conveyed by the terms employed, it is impossible to doubt that by the power of purchasing other goods is meant the power of purchasing other goods generally. Who, then, could have conceived before-hand that the

author would have inferred from this definition that he was justified in representing the power of purchasing other goods by the power of purchasing any one sort of goods which might first come to hand?—so that, considering the value of money in this country to be proportioned to its general power of purchasing, it would be correct to say that the value of an ounce of silver was proportioned to the quantity of apples which it would command; and that when it commanded more apples, the value of silver rose—when it commanded fewer apples, the value of silver fell.

It is, no doubt, quite allowable to compare any two commodities whatever together in regard to their value in exchange, and, among others, silver and apples. It is also allowable to say, though it would in general sound very strange, that the value of an ounce of silver, *estimated in apples*, is the quantity of apples it will command, provided that, by thus using the qualifying expression *estimated in apples*, immediately after the word value, we distinctly give notice to the reader that we are not going to speak of the exchangeable value of silver generally, according to the definition of Adam Smith, but merely in the very confined sense of its relation to one particular article. But if, without this distinct notice to the reader, we simply say that the value of an ounce of silver is expressed by the quantity of apples for which it will exchange, or, in the words of the author, that "the value of *a* is expressed by the quantity of *b*, for which it will exchange," nothing can be more clear than that we use the term value in a manner totally unwarranted by the previous definition, that is, in a sense quite distinct from that in which Adam Smith uses it in the description of value adopted by the author.

Putting the corn and the circulating medium of a country out of the question, the relations of which to labour and the costs of producing various commodities are tolerably well known, no one, in ordinary conversation, has ever been heard to express the general power of purchasing by the power of purchasing some one particular commodity. It would, indeed, sound very strange, if a person returning from India, on being asked what was the value of money in that country, were to mention the quantity of English broad cloth which a given quantity of money would exchange for, and to infer, in consequence, that the value of money was lower in India than in England.

In regard to the opinions and practice of other writers on political economy, most of them have considered the general power of purchasing, and the power of purchasing a particular commodity, as so essentially distinct, that they have given them different names. The only authority quoted with approbation by the author, is Colonel Torrens, whose views, as to the nature of value, appear to him, he says, to be sounder than those of any other writer. Yet, what does Colonel Torrens say on this subject?—"The term exchangeable value expresses the power of purchasing with respect to commodities in general. The term price denotes the same power with respect to some particular commodity, the quantity of which is given. Thus, when I speak of the *exchangeable value* of cotton as rising or falling, I imply, that it will purchase a greater or less quantity of corn, and wine, and labour, and other marketable commodities; but when I talk of the *price* of cotton as rising or falling, I mean, that it will purchase a greater or less quantity of some one particular commodity, such as corn, or

wine, or labour, or money, which is either expressed or understood. Exchangeable value may rise, while price falls, or fall while price rises. For example : if cotton were, from any cause, to acquire twice its former power of purchasing, with respect to goods in general, while gold, the particular commodity in which the price of cotton is expressed, rose in a still higher ratio, and acquired four times its former power in the market, then, though the exchangeable value of cotton would be doubled, its price would fall one half. Again : if cotton would purchase only half the former quantity of commodities, while it purchased twice the quantity of some particular commodity, such as corn, or wine, or labour, or money, then its exchangeable value would have sunk one half, while its price, as expressed in corn, or wine, or labour, or money, became double. And again : if cotton, and the particular commodity in which price is expressed, should rise or fall in the same proportion with each other, then the exchangeable value of cotton, or its general power of purchasing, would fluctuate, while its price remained stationary."*

It appears then that, whether Colonel Torrens's view of value be quite correct or not, he draws the most marked line of distinction possible between the power of purchasing generally, and the power of purchasing a particular commodity, and is decidedly of opinion, that the latter, which is the sense in which the author uses the term value, should not be called value, but price. The authority of Colonel Torrens, therefore, whose views on the subject of value the author considers as so sound, is directly against him.

But not only does Colonel Torrens attach a very

* Production of Wealth, c. i. p. 49.

different meaning to the term value, from that in which it is used by the author throughout the greatest part of his work, but the author himself, in his notes and illustrations,* has given extracts from almost all the distinguished writers on political economy, expressly for the purpose of showing the universality of an opinion respecting the nature and measure of value directly opposed to his own. The writers to whom he refers, are Adam Smith, Sir James Stuart, Lord Lauderdale, M. Storch, M. Say, Mr. Ricardo, myself, Colonel Torrens, Mrs. Marcet, Mr. Mill, the Templar's Dialogues, and Mr. Blake.

In the case of a proposition the nature of which admits of a logical proof, authority is of no consequence; but in a question which relates to the meaning to be attached to a particular term, it is quite incredible that any person should thus have ventured to disregard it.

Much, however, of inconsistency, of illogical inference, and disregard of authority, might have been overlooked, if the proposed change in the meaning of the term value would introduce a much greater degree of clearness and precision into the language of political economy, and, in that way, be eminently useful to the progress of the science.

But, what would be the consequence of adopting the meaning which the author attaches to the term value, and of allowing, according to his own words, that "the value of *a* is expressed by the quantity of *b* for which it will exchange, and the value of *b* is, in the same way, expressed by the quantity of *a*"? † One of these consequences is strikingly described in the

* Page 242. † Dissertation on Value, c. i. p. 3.

following passage of the author's chapter on "Real and Nominal Value," a distinction which he is pleased to call unmeaning. "The value of a commodity denoting its relation in exchange to some other commodity, we may speak of it as money-value, corn-value, cloth-value, according to the commodity with which it is compared: and hence there are a thousand different kinds of value, as many kinds of value as there are commodities in existence, and all are equally real and equally nominal." *

This is precision with a vengeance. Now, although it cannot be said that the writers on political economy have been sufficiently agreed as to the precise meaning which they attach to the terms *value of a commodity*, when no express reference is made to the object with which it is to be compared, yet, by drawing a marked line of distinction between what has been called the real value of commodities and their nominal value, or, more correctly, between their *value* and their *price*, they have avoided the prodigious confusion which would arise from a commodity having a thousand or ten thousand different values at the same time. Whenever they use the term value of a commodity alone, and speak of its rising or falling, if they do not mean money-price, they refer either to its power of purchasing generally, or to something expressive of its elementary cost of production.

In either case, some general and very important information is communicated; but the value of a commodity, in the sense understood by the author, might be expressed a hundred different ways, without conveying a rational answer to any person who had inquired about it.

* Dissertation on Value, c. ii. p. 39.

Further: the use of the term *value*, in the sense understood by the author, is entirely superfluous. It has exactly the same meaning as the term *price*, except that the term price has this very decided advantage over it, namely, that when the price of a commodity is mentioned, without an express reference to any other object in which it is to be estimated, political economists have universally agreed to understand it as referring to money. This is a prodigious advantage in favour of the term price, and tends greatly to promote both facility and precision in the language of political economy. When I ask, what is the *price* of wheat in Poland? no one has the least doubt about my meaning, and I should, without fail, get the kind of answer I intended. But if I asked, what was the *value* of wheat in Poland, I might, according to the author, be answered in a thousand different ways, all equally proper, and yet not one of the answers be of the kind I wanted. Of course, whether I use the term value or price, if I always expressly subjoin the object to which I mean to refer, it will be quite indifferent to which term I resort. But it is vain to suppose that the public will submit to such constant and unnecessary circumlocution. It would quite alter the language of political economy; and the kind of abbreviation which has taken place in application to the term price could not take place in regard to value, according to the doctrines of the author; because, when the *value* of a commodity is used alone, like the price of a commodity, no one object rather than another is entitled to a preference for the expression of that value. The author says distinctly in a note,* that

* Dissertation on Value, c. iii. p. 58.

money-value has no greater claim to the general term *value* than any other kind of value. It is quite clear, therefore, that if the term value is only to be applied in the sense in which it is applied by the author, it would be much better to exclude it at once from the vocabulary of political economy as utterly useless, and only calculated to produce confusion.

It may be further observed, that the sense in which the author proposes to apply the term value, is so different from the sense in which it is understood in ordinary conversation, and among the best writers, that it would be quite impossible to maintain it with consistency. The author himself, however much, at times, he seems to persevere in the peculiar meaning which he has given to the term value, frequently uses it by itself, without reference to any particular article in which he proposes to express it. Even in the titles of some of his chapters he does this; and when in chapter ix. he discusses *the distinction between value and riches*, and in chapter ix. *the causes of value*, we are entitled to complain, that he has not acted according to the instructions which he has given to others, and told us, either expressly, or by implication, in what article the value here mentioned is to be expressed.

Again: when he mentions the value of that corn which is produced on lands paying rent, and when he speaks, as he frequently does, of the value of capital,*

* Dissertation on Value, c. xi. pp. 194, 224. In the question between Colonel Torrens and Mr. Mill, "Whether the value of commodities depends upon capital as the final standard," the author decides against Mr. Mill, but surely without reason. Mr. Mill cannot be wrong in thinking, that no progress whatever is made towards tracing the value of a commodity to its elements, by saying, that its value is determined by the value

he does not tell us in what he means to express the value of corn, or of capital, although he thinks that such a reference, either expressed or implied, is always necessary, and particularly says, "In the preceding pages it has been shown, that we can express the value of a commodity only by the quantity of some other commodity for which it will exchange."*

The meaning, therefore, which he gives to the term value is such, that he cannot and does not maintain it consistently himself, much less can he expect that others should so maintain it.

It appears, then, that the author has arbitrarily adopted a meaning of the term value quite unwarranted by the usage of ordinary conversation, directly opposed to the authority of the best writers on political economy, pre-eminently and conspicuously useless; and of such a nature that it cannot be maintained with consistency.

And what does he do with his definition after so adopting it?

He applies it to try the truth of a number of propositions advanced by different writers, who, according to his own showing, have used the term in a very different sense.

This appears to me much the same kind of proceeding as if a person were to define a straight line to be something essentially different from a line lying evenly between its two extremes, and then were gravely to apply it to one proposition after another of

of the capital employed to produce it. The question still remains, how is the value of the capital determined? As to what the author says, p. 202, about the *amount* of capital, unless this amount be estimated in *money*, which quite alters the question, it is entirely inapplicable as a standard.

* Dissertation on Value, c. viii. p. 160.

Euclid, and show, as might easily be done, granting the definition, that the conclusions of the Grecian geometer were all wrong.

The perseverance with which the author proceeds gravely to apply his peculiar definition of value to other writers, who have defined it differently, is truly curious, and must be allowed to be a great waste of time and labour. If, as he says, he has repeatedly stated, "to know the value of an article at any period is merely to know its relation in exchange to some other commodity;"* and if no previous writer, in referring to the value of an article at any period ever thought or said that it could be expressed by its relation in exchange to any other contemporary commodity indifferently, it might at once be presumed, without further trouble, that almost all former propositions involving the term value would turn out to be either false or futile. It was quite unnecessary for him, therefore, to go into the detail; but as he has done so, it may be useful to follow him in some of his conclusions, as it may assist in drawing attention to a subject which lies at the bottom of many of the difficulties in political economy, and has not been sufficiently considered.

One of the first effects of the author's definition is to destroy the distinction between what many writers of great authority have called *real value,* and *nominal value.* It has already been observed that Adam Smith, by applying the term *real* wages to express the necessaries and conveniences of life earned by the labourer, had precluded himself from the power of applying it consistently to the *value* of a commodity, in order to express its power of commanding labour; because it

* Dissertation on Value, c. vi. p. 135.

is well known that the same quantity of labour will both produce and command, at different times and under different circumstances, a very different quantity of the necessaries and conveniences of life. But putting aside for the present this acknowledged inconsistency of Adam Smith, and taking real value as distinguished from nominal in the sense in which the writers, who have so applied it, intended, the author's observations on these writers are not a little extraordinary.

After noticing the doctrines of Adam Smith, Mr. Ricardo, and myself, on the subject of real and nominal value, he says, "After the disquisition on the nature of value in the preceding chapter, the distinction of it in this way must appear to be merely arbitrary and incapable of being turned to any use. What information is conveyed, or what advance in argument is effected, by telling us that value estimated in one way is real, but in another, is nominal?" * He afterwards goes on to say, in reference to a passage in the Templar's Dialogues, "It would not, however, probably have been written, had the author attended to the simple fact, that value must always imply value in something, and unless that something is indicated, the word conveys no information. Now, as the terms nominal and real do not denote anything in this way, they convey no precise information, and are liable to engender continual disputes, because their meaning is arbitrarily assumed." †

These appear to me to be very extraordinary observations. It must surely be allowed, that to compare a commodity either with the mass of other

* Dissertation on Value, c. ii. p. 58. † *Ibid.* p. 39.

commodities, or with the elementary costs of production, is most essentially distinct from comparing it with some particular commodity named. And if so, writers are bound so to express themselves as to convey to their readers, which of the two they intend to refer to. Whether these writers have chosen the very best terms to express these ideas is another question; but that the ideas themselves are quite different, and that it is essential to the language of political economy that they should be distinguished by different terms, can hardly admit of a doubt.

The author is repeatedly dwelling upon the relative nature of value, as if he alone had considered it in this light; but no other writer has ever used the term value without an intelligible reference expressed or implied to something else; and when the author says, in the passage above quoted, that value must always imply value in something which ought to be indicated, and that the terms nominal and real do not denote anything in this way, surely his assertion is without foundation. M. Say, for instance, in a passage quoted by the author in his notes,* observes, "There is this difference between a real and a relative variation of price; that the former is a change of value arising from an alteration of the charges of production; the latter a change arising from an alteration in the ratio of value of one particular commodity to other commodities." Now, is it possible to say with truth, that the real and relative values here described do not both refer to other objects, and that these objects are not so different as to require to be distinguished?

The author may, perhaps, say, that if both expres-

* Page 240.

sions are meant to be relative, why use the terms real, positive, or absolute? The answer is, that the usage of our language allows it, and that nothing is more common than the use of the terms real, positive, and absolute, in contradistinction to relative, when the former terms have relation to some more general object, particularly to anything which is considered as a standard, whether accurate or inaccurate.

Thus, although all distances are relative, it would be quite justifiable to say, that if the earth was moving towards the farthest part of her orbit, her positive, absolute, or real distance from the sun was increasing, although her distance relatively to that of some other planet or comet, moving from the sun with greater velocity, was diminishing. Tall and short, rich and poor, are relative terms: yet surely we should be warranted in saying, that Peter was not only taller than his three brothers, but, really or positively, a tall man. In the first case he is said to be tall in relation to three individuals; but a stranger, knowing nothing of the height of these individuals, would obtain very little information from the statement. He would not know whether Peter was four feet, five feet, or six feet high: in the latter case, Peter is said to be tall in relation to the average or standard height of the race of men spoken of; and though the stranger might not have in his mind a perfectly accurate notion of this standard, yet he would immediately have before him the height of Peter within a few inches, instead of a few feet.

On the same principle, would it not be most ridiculous for any person gravely to propose that as rich and poor are relative terms, no one should ever call a man rich without mentioning at the same time the

individual in relation to whom he was rich? It is perfectly well known, that when, in any particular place or country, a man is said to be a rich man, the term refers to a sort of loose standard, expressing either a certain command over the goods of this life, or a certain superiority in this respect over the mass of the society, which superiority it had been the custom to mark by this expression. In either case, it would be allowable to call the man really or positively rich. But if the proposed change were adopted, and instead of saying that Mr. John Doe was a rich man, we could only say that he was rich in relation to Mr. Richard Roe; as poor Richard might be little better than a pauper, Mr. Doe might, after all, be in very narrow circumstances.

It is clear, therefore, not only that the terms real and positive may be legitimately applied in contradistinction to relative, when a relation to some more general object or standard is intended; but that the difference between the two sorts of relations is of the utmost importance, and ought to be carefully distinguished. It is not easy to conceive, therefore, how any writer could suppose that the language of political economy would be improved by a definition which would destroy this distinction, and make as many kinds of value as there are commodities, all equally real and equally nominal. In reference to all other political economists, whenever they have used the term value of a commodity, without specifically mentioning the object in which they intended to estimate it, they must be considered as referring tacitly either to the mass of commodities, to the state of the supply compared with the demand, or to the elementary costs of production. But when the author of the "Critical

Dissertation" uses the term value, which he does frequently without specific application, his general doctrine must leave the reader quite at a loss to conjecture what he means.

Proceeding on the same strange misapprehension or perversion of the language of other writers, the author says of the writer of the Templar's Dialogues —" Following Mr. Ricardo, he appears entirely to lose sight of the relative nature of value, and, as I have remarked in the preceding chapter, to consider it as something positive and absolute; so that if there were only two commodities in the world, and they should both, by some circumstances or other, come to be produced by double the usual quantity of labour, they would both rise in real value, although their relation to each other would be undisturbed. According to this doctrine everything might at once become more valuable by requiring at once more labour for its production; a position utterly at variance with the truth, that value denotes the relation in which commodities stand to each other as articles of exchange. Real value, in a word, is on this theory considered as the independent result of labour; and, consequently, if under any circumstances the quantity of labour is increased, the real value is increased. Hence the paradox, that it is impossible for *a* continually to increase in value—in real value observe, and yet command a continually decreasing quantity of *b*, and this although they were the only two commodities in existence. For it must not be supposed that the author means that *a* might increase in value in relation to a third commodity *c*, while it commanded a decreasing quantity of *b;* a proposition which is too self-evident to be insisted on; but he means that *a* might

increase in a kind of value called real, which has no reference to any other commodity whatever. Apply to the position of this author the rule recommended in the last chapter; inquire, when he speaks of value, value in what? and all the possible truth on the subject appears in its naked simplicity." He adds afterwards again, "Value must be value in something, or in relation to something."*

Now, let the reader recollect that this passage was written by a person who sets out with saying that value in its ultimate sense, appears to mean the esteem in which any object is held, and it will appear most remarkable.

In the first place, what can the author possibly mean by speaking of the kind of value here called *real*, as if it had no relation to anything else? The "Templar," it must surely be allowed, has explained himself with sufficient clearness, that by real value he means value in relation to the producing labour.

Secondly, if the value of a commodity means the esteem in which it is held, I would ask, whether the labour required to produce a commodity does not, beyond all comparison, express more nearly the esteem in which the commodity is held, than a reference to some other commodity the producing labour of which is utterly unknown, and may therefore be one day or one thousand days?

Now, although the value of a commodity cannot be correctly expressed by referring to the producing labour alone, yet compared with the expression of value proposed to be substituted by the author of the "Critical Dissertation," it has a prodigious superiority.

* Dissertation on Value, c. ii. p. 40.

Let us try both, for instance, by the touch of the talisman recommended by the author himself. Let the question be the value of silver before the discovery of the American mines; and let us ask, as directed, value in relation to what? The Templar would answer, value in relation to the producing labour; and though in this answer a material ingredient of elementary value is omitted, yet every one would collect from it some tolerable notion of the esteem in which silver was held at that time; and if it were found, on comparison, that the producing labour was now three or four times less, it might be inferred, with tolerable certainty, that silver had grown more plentiful; and that four centuries ago a given quantity of silver was held in much greater esteem, that is, people would make a much greater sacrifice in order to obtain it, than at present.

On the other hand, if the author of the "Critical Dissertation" should speak of the value of silver before the discovery of the American mines, and we should ask, value in relation to what? his answer would be, "I have repeatedly stated that to know the value of an article at any period is merely to know its relation in exchange to some other commodity;" consequently, we should know the value of silver in the fifteenth century, or the esteem in which it was held, by comparing it with calicoes, although we might know nothing at all about the difficulty or facility of obtaining calicoes at that time. And if we were to proceed, as in the former case, and, with a view to ascertain the esteem in which silver was held in the fifteenth century, as compared with the esteem in which it is held in the nineteenth, were to mark the relation of silver to calicoes in the two periods, it

would appear, that as, owing to the improvements in the cotton machinery, a given quantity of silver would command more calicoes now than formerly, silver should be considered as being held in higher estimation now than four centuries ago. Yet no person, not even the author himself, would agree to this conclusion. He would probably say that the comparison was merely between silver and calicoes, and had nothing to do with anything else. If this be all he means, why does he confuse his readers by stating that value means the esteem in which a commodity is held? and why does he say that to know the value of an article at any period is merely to know its relation in exchange to some other commodity? If all he means by the value of a commodity is its relation to some other, why did he not at once say, without ever talking about esteem, that the value of one commodity in relation to any other was expressed by the quantity of that other for which the first would exchange; and that, when the first rose in relation to the other, the other would always fall proportionably in relation to the first? If he had so expressed himself, his proposition would have obtained universal consent; it would have been a truism which had never been denied. But as long as he continues to talk of the esteem in which commodities are held, his readers must consider him as peculiarly inconsistent, if, on the supposition of there being only two commodities in existence, he prefers measuring the esteem in which one of them is held by its relation to the other, rather than by its relation to the producing labour. And they must further think, that while he continues to state that "to know the value of an article at any period is merely to know its relation in exchange to some other

commodity," he is stating a proposition which, according to the usual sense in which the word value is understood when so placed, is totally unfounded. No one would venture to say that he should know the value of silver four hundred years ago by knowing the quantity of calicoes which an ounce of silver would then command.

The sixth chapter of the author is entitled "On Measures of Value;" and the discussion of this subject leads him to such strange conclusions, that one cannot but feel the greatest surprise at his not seeing that he must have been proceeding in a wrong course. He ridicules the notion of its being necessary that a commodity should possess invariable value, in order to form a perfect measure of value. Such a notion, which he says in a note, has been entertained by all the most distinguished writers in political economy, he civilly calls an utter absurdity. According to the doctrines and language of the author, no relation exists between the value of a commodity at one time and the value of the same sort of commodity at another; and "the only use of a measure of value, in the sense of a medium of comparison, is between commodities existing at the same time."*

If this be so, it is, no doubt, quite absurd in political economists to look for anything approaching towards an invariable measure of value, or even to talk of one commodity or object being more steady or constant in its value than another. At the same moment, bags of hops are as good a measure of the relative value of commodities as labour or money. With regard to money, indeed, the author particularly observes, "that

* Dissertation on Value, c. vi. p. 117.

from the relations between corn and money, at two different periods, no other relation can be deduced; we do not advance a step beyond the information given. * * We cannot deduce the relation of value between corn at the first, and corn at the second period, because no such relation exists, nor, consequently, can we ascertain their comparative power over other commodities. If we made the attempt, it would be, in fact, endeavouring to infer the quantities of corn which exchanged for each other at two different periods of time, a thing obviously absurd. And further, money would not be here discharging a particular function any more than the other commodity. We should have the value of corn in money and the value of money in corn, but one would be no more a measure or medium of comparison than the other." *

From all this it follows necessarily that we must on no account say, that butter has been rising during the last month; if we do, we shall be convicted of the absurdity of proposing to exchange the butter which was consumed three weeks ago with the butter now on our table, in order to ascertain that a pound of the former will command less than a pound of the latter. For the same reason, we must not on any account say, that the value of wheat fell very greatly from 1818 to 1822, and rose considerably from 1822 to 1826. We must not venture to compare the value of the advances of a master manufacturer with the value of his returns; or, in estimating the rate of his profits, presume to prefer money, which generally changes slowly and inconsiderably in its power of setting labour to work, to hops, which change so rapidly and greatly, &c., &c.

* Dissertation on Value, c. vi. p. 117.

In short, the whole of the language and inferences of the business of buying and selling, and making money, must be altered and adapted to the new definitions and doctrines.

It is quite astonishing that these consequences should not have startled the author. If he had but adhered to his first description of value, namely, the esteem in which an object is held; or even if he had interpreted his second definition of value, namely, "the power of purchasing other goods," according to the ordinary and natural meaning of the expression, he could never have been led into the strange mistake of supposing, that when people have talked of the value of a commodity at one period, compared with the value of the same kind of commodity at another, they could only refer to the rate at which they would actually exchange with each other, which, as no exchange could in such a case take place, would be absurd. What then did they mean? They obviously meant either to compare the esteem in which a commodity was held at one period with the esteem in which it was held at another, founded on the state of its supply compared with the demand, and ordinarily on its cost of production; or to compare the general power of purchasing which a commodity possessed at one period with its general power of purchasing at another period. And will the author venture to assert, that there are not some objects better calculated than others to measure this esteem, or measure this general power of purchasing at different periods? Will the author maintain, that if, in reference to two periods in the same country, a commodity of a given kind will in the second period command double the quantity of labour that it did in the first, we could not

with much more certainty infer that the esteem for it had greatly increased, than if we had taken calicoes or currants as the medium of comparison? Or would the author, upon a little reflection, repeat again what he says in the passage last quoted, that from the relations between corn and money in two successive seasons, we can deduce no other relation, * * "money would not be here discharging a particular function any more than the other commodity. We should have the value of corn in money and the value of money in corn, but one would be no more a measure or medium of comparison than the other."*

To me, at least, these statements appear utterly unfounded. If the money-price of corn had risen this year to double what it was in the last, it might be inferred, with almost absolute certainty, that corn was held in much higher estimation than it had been. It would be clear that the relation of corn to other articles, besides money, had most essentially changed, and that a quarter of corn would command a much greater quantity of labour, a much greater quantity of cloth, a much greater quantity of hardware, a much greater quantity of hats and shoes, than it did the year before: in short, that it would command nearly double the quantity of all other commodities which were in their natural and ordinary state, and had not been essentially affected by the causes which had operated upon the price of corn.

Where then is the truth of saying, that from the altered relation between corn and money we deduce no other relation? It is perfectly obvious that we *can* deduce and *do* deduce a great number of other

* Dissertation on Value, c. vi. p. 117.

most important relations; and, in fact, *do* ascertain, though not with perfect accuracy, yet with a most desirable and useful approach to it, the degree of increase in the power of corn to command in exchange the mass of other commodities.

On the other hand, from the diminished power of money in relation to corn, we *cannot* infer that money has fallen nearly in the same proportion in relation to other commodities. If an ounce of silver will now command only half a bushel of wheat, instead of a whole bushel, we can by no means infer that an ounce of silver will therefore command only about half the quantity of labour, half the quantity of cloth, half the quantity of hardware, half the quantity of hats and shoes, and of all those commodities which are in their natural and ordinary state. To all these objects money will probably bear nearly the same relation as before.

Where, then, is the truth of saying, that money would not be here discharging a particular function more than the other commodity? Broad, glaring, and incontrovertible facts show, that for short periods money *does* perform the function of measuring the variations in the general power of purchasing possessed by the corn; but that the corn does *not* measure the variations in the general power of purchasing possessed by the money. This is one of the instances of that extraordinary inattention to facts which, most unfortunately for the science of political economy, the professors of it have lately indulged themselves in.

The author has said a great deal in good set phrase about the false analogy involved in the application of the term *measure* to the value of commodities at different periods; and gravely states the difference

between measuring length at different periods and measuring value.

Now, whenever mention is made of the value of a commodity at different periods, a reference has usually been intended either to its general power of purchasing, or to something calculated to express the estimation in which it was held at these different periods, founded on the state of its supply compared with the demand, or the elementary costs of its production.

But if the term has been generally understood in this way, people must have been fully aware that value was essentially different from length: they would know perfectly well that a piece of cloth of a yard long would continue to be a yard long when it was sent to China; but that its value, that is, its general power of purchasing in China, or the estimation in which it was held there, would probably be essentially altered. But allowing this most marked distinction, and that the value of a commodity cannot be so well defined, and its variations so accurately measured, as the length of a commodity—where is the false analogy of endeavouring to measure these variations as well as we can? We cannot certainly describe the wealth of a merchant, nor measure the increase of his wealth during the last four years, with the same exactness as we can describe the height of a boy, and measure the amount of his growth during the same period. We can perform the latter operation with the most perfect precision by means of a foot-rule. The nature of wealth, and the best instruments used to measure its increase, are such, that the same precision is unattainable; but there is no false analogy involved in the process of measuring the wealth of a merchant at one time with

his wealth four years before, by the number of pounds sterling which he possesses now, as compared with the number of pounds sterling he possessed at the former period. What false analogy is involved in applying money to measure the value of the advances of a manufacturer, as compared with the value of his returns, in order to estimate his profits? and what can the author mean by saying, that no relation of value can exist between commodities at different periods;* and that it is a case where money has no function to perform?

Notwithstanding such assertions, we see every day the most perfect conviction prevailing among all agriculturists, merchants, manufacturers, and shop-keepers, and among all writers on political economy, except the author, that to estimate the relation of commodities, at different periods, in regard to their general power of purchasing, and particularly the power of purchasing labour, the main instrument of production, is a most important function, which it is peculiarly desirable to have performed; and that, for moderately short periods, money *does* perform this function with very tolerable accuracy. And for this specific reason; that, for moderately short periods, a given quantity of money will represent, more nearly than any other commodity, the general power of purchasing, and particularly the power of setting labour in motion, so vital to the capitalist. It will approach, in short, more nearly than any other commodity, to that invariability which the author thinks so utterly useless in a measure of value, and the very mention of which seems to excite his indignation.†

* Dissertation on Value, c. vi. p. 113, *et seq.* † *Ibid.* p. 110.

It is, in fact, by means of this same steadiness of value in the precious metals, which they derive from their great durability, and the consequent uniformity of their supply in the market, that they are enabled to perform their most important functions. Hops, or corn, as before stated, will measure the relative values of commodities at the same time and place; but let the author or reader attempt to estimate the profits of a capitalist in hops or corn, by the excess of the value of his advances above the value of his returns so estimated, and he will soon be bewildered. If a very plentiful year of corn were to succeed to a comparatively scarce one, the farmer, estimating both his outgoings and incomings in the corn of each year, might appear to gain above fifty per cent., while, in reality, he might have lost, and might not be able, without trenching on his capital, to employ as many men on his farm as the year before. On the other hand, if a comparatively scarce year were to succeed to a plentiful one, his profits, estimated in corn, might appear to be less than nothing, and yet he might have been an unusual gainer, in reference to his general power of purchasing labour and other commodities, except corn. If the hop-planter were to estimate his advances and returns in hops, it is obvious that the results would be of the same kind, but aggravated in degree.

It must be allowed, then, that the commercial world have acted most wisely in selecting, for their practical measure of value, a commodity which is not only peculiarly convenient in its form, but is, in general, subject only to slow changes of value; and possesses, therefore, that steadiness in its power of purchasing labour and commodities, without which all confidence

in carrying on mercantile enterprises, of any duration, would be at an end.

But though the precious metals are a very useful and excellent measure of value for those periods, within which almost all mercantile transactions are begun and completed; yet, as Adam Smith very justly observes, they are not so for very long periods; not because there is no function for them to perform, but because, in the course of four hundred years, they are found to lose that uniformity of value, which, in general, they retain so well during four years.

It is impossible, therefore, to agree with the author, when he says, speaking of the precious metals, that, "in regard to measuring or comparing value, there is no operation that can be intelligibly described, or consistently imagined, but may be performed by the media of which we are in possession."* Surely, to measure the relative power of a commodity over labour and the mass of other commodities, at different and distant times, is an operation which may be both consistently imagined, and intelligibly described; yet it is quite certain, that, in regard to distant periods, the precious metals will not perform this well. Would the author himself venture to say, that the general power of purchasing possessed by an ounce of silver in the time of Edward the Third, was not very much greater than the general power of purchasing possessed by an ounce of silver in the time of George the Fourth; or that the same quantity of agricultural labour at these two periods, would not much more nearly have represented the same general power of purchasing? The author seems equally unfortunate

* Dissertation on Value, c. vi. p. 102.

when he launches out in praise of the precious metals as a measure of value, as when he says that they do not perform this function better than corn.

It will be observed that, in speaking of the values of commodities at different periods, as meaning their different powers of purchasing at those periods, the kind of value referred to is, exclusively, value in exchange. And, in reference to value in exchange, exclusively, it appears to be of the utmost importance to the language of political economy, to distinguish between the power of purchasing generally, and the power of purchasing any one commodity.

But it must not be imagined that when the estimation in which a commodity is held at different periods is referred to, as determined at the time by the state of the supply compared with the demand, and ordinarily by the natural and necessary conditions of its supply, or by the elementary costs of its production, which are equivalent expressions, that value in exchange is lost sight of. Yet the author is continually falling into this kind of misapprehension, and into a total forgetfulness of his first account of the meaning of value, in his examination of Mr. Ricardo's views, as to the uses of a measure of value, in which, he says, a singular confusion of thought is to be discovered.*

"Suppose," he observes, "that we had such a commodity as Mr. Ricardo requires for a standard: suppose, for instance, all commodities to be produced by labour alone, and silver to be produced by an invariable quantity of labour. In this case, silver would be, according to Mr. Ricardo, a perfect measure of value.

* Dissertation on Value, c. vi. p. 120.

But in what sense? What is the function performed? Silver, even if invariable in its producing labour, will tell us nothing of the value of other commodities. Their relations in value to silver, or their prices, must be ascertained in the usual way; and, when ascertained, we shall certainly know the values of commodities in relation to each other; but in all this, there is no assistance derived from the producing labour of silver being a constant quantity."*

The function which silver would have to perform in this case would be as already described, either to measure the different powers of purchasing possessed by commodities at different periods, or to measure the different degrees of estimation in which they were held at these different periods.

Now, in the first place, with regard to the general power of purchasing, can it be denied for a moment, that, granting all the premises, as the author does hypothetically, silver, so produced, would be, beyond comparison, a better measure of the power of purchasing generally, than silver as it has been actually produced? It would be secured from that greatest source of variation in the general power of purchasing occasioned by the variation in its own producing labour; and an ounce of such silver would command much more nearly the same quantity of labour and commodities, for four or five hundred years together, than an ounce of silver derived from mines of greatly varying fertility.

Secondly, with regard to the estimation in which a commodity is held, it is not easy to conceive a more complete measure. If all commodities were produced

* Dissertation on Value, c. vi. p. 122.

by labour alone, and exchanged with each other according to the producing labour; and if silver were produced by an invariable quantity of labour, the quantity of silver given for a commodity in the market at different periods, would express almost accurately the relative estimation in which it was held at these periods; because it would express at once the relative sacrifice which people were willing to make, in order to obtain such a commodity at these different periods; the relative conditions of the supply, or elementary costs of production, of such commodity at these periods; and the proportion of the produce to the producer, or the relative state of the demand, as compared with the supply of such commodity at these different periods. And if the value of a commodity means, as the author has told us in the first sentence of his book, the esteem in which it is held, Mr. Ricardo's measure would certainly do all which he proposed it should do; and this specifically on account of its invariability in relation to the estimation in which it was held.

It would not merely indicate, as the author states, in which of two commodities varying in relation to each other, at different periods, the variation had taken place; * but it would express the precise amount of the variation; that is, if it appeared by documents that the price of a yard of cloth of a certain quality four hundred years ago was twenty shillings, and its price at present was only ten shillings, it would follow, that the estimation in which it was held, or its value, had fallen one-half; because, as all commodities are, by the supposition, produced by labour alone, the sacrifice with which it could be obtained, the necessary

* Dissertation on Value, c. vi. p. 121.

conditions of its supply, or the elementary costs of its production, had diminished one-half.

The variations of a commodity, in relation to this kind of standard, would further show, with great exactness, the variations in its power of commanding all those commodities which had not altered in the conditions of their supply, or the elementary costs of production. If a commodity rose or fell in this standard price, at different periods, it would necessarily rise or fall exactly in the same proportion in its power of commanding, in exchange, all those commodities which had not altered in the conditions of their supply, or their elementary costs of production.

But still, it will be readily acknowledged, that, even granting all that the author has granted hypothetically to Mr. Ricardo, it is not true that such silver would be an *accurate* measure of the general power of purchasing. Although the circumstance of its invariability, in regard to its producing labour, would give it a prodigious superiority over all other commodities even in this respect, yet, as the producing labour of many commodities may vary in the progress of society, it is quite impossible that the same quantity of any one object can, through successive periods, represent the same general power of purchasing. This is universally allowed; and as it would be clearly desirable to have *one* rather than *two* definitions of value, the question is, whether, both on this account, and on account of the universal language and practice of society, for short periods, it would not be decidedly better to confine the term value of a commodity, when used generally, to the estimation in which it is held, determined by the state of the supply compared with the demand, and ordinarily by the elementary costs of

production, rather than to its general power of purchasing. There is very nearly an accurate measure of the former; it is universally acknowledged that there cannot be an accurate measure of the latter; and further, it is most important to remark that, in adopting the former, our language would much more nearly coincide with the ordinary language of society in referring to variations of value, than if we adopted the latter.

As a matter of fact, when a rise in the value of hops or of corn is spoken of, who ever thinks about the changes which may have taken place in the values of iron, flax, or cabbages? For short periods, we consider money as nearly a correct measure of the values of commodities, as well as of their prices; and if hops and corn have risen in this measure, we do not hesitate to say that their values have risen, without the least reference to cloths, calicoes, or cambrics. This is a clear proof that, in general, when we speak of the variations in the values of commodities, we do not measure them by the variations in their general power of purchasing, but by some sort of standard which we think better represents the varying estimation in which they are held, determined at all times by the state of the supply compared with the demand, and, on an average, by the elementary costs of production.

The only variations in the general power of a commodity to purchase, which are susceptible of a distinct and definite measure, are those which arise from causes which affect the commodity itself, and not from the causes which affect the innumerable articles against which it is capable of being exchanged. In speaking, therefore, of the variations in the value of particular commodities, it is not only more accordant with the

accustomed meaning attached to the expression, but absolutely necessary with a view to precision, to consider them as exclusively proportioned to, and measured by, the amount of the causes of value operating upon themselves.

Mr. Ricardo, therefore, quite consistently with his own hypothesis, considers a commodity, the producing labour of which has doubled, as having increased to double its former value. It has increased in relation to a standard which, according to him, is the sole cause of value; it will command just double the quantity of all those commodities which have not altered in their producing value; and if it will not command just double the quantity of other commodities, it is not because it will not command just double the *value* which it did before, but because, on account of the changes in the producing labour of the other commodities, double the quantity of them has become more or less than double the value.

On the same principle, Adam Smith considers the value of cattle as rising in the progress of cultivation and improvement, although the value of land, the value of wood, the value of poultry, &c., might rise still higher, and, consequently a given quantity of cattle might, with regard to some commodities or sets of commodities, have its power of purchasing diminished. But in saying that the value of cattle rises in the progress of cultivation, he means to say, that it rises in relation to a standard, namely, the labour a commodity will command, which represents at different periods the state of the supply of cattle compared with the demand, and, on an average, the elementary costs of their production; and, consequently, much better represents the estimation in which they are

held than any commodity or set of commodities. "Labour," he observes, "it must always be remembered, and not any particular commodity, or set of commodities, is the real measure of the value both of silver and of all other commodities."*

Even the author himself has a chapter on the causes of value; and here he finds it absolutely necessary to estimate the causes affecting one commodity as distinct from the causes affecting another; although, according to his previous doctrine, the value of one commodity might be just as powerfully affected by causes operating upon another commodity as by causes operating upon itself. If *a* and *b* be compared, the value of *a* will be equally doubled, whether the elementary costs of *a* be doubled or the elementary cost of *b* be diminished one half; and so no doubt it would, if the relation of *a* to *b* were alone considered. But what does this prove? not that the value of *a* is not very differently affected in the two cases, according to the most ordinary, the most useful, and the most correct acceptation of the term value; but that to confine the term value, as the author does, to the mere relation of any one commodity to any other, is to render it pre-eminently futile and useless.

In first separating value in exchange from value in use, it may be allowable to distinguish it by the title of the power of purchasing other goods, as Adam Smith has done, though never to interpret this power as the power of purchasing any one sort of goods, as the author has done. But the moment we come to inquire into the variations of the values of commodities at different periods, we must, with any view to precision and utility, draw a marked line of distinction

* Wealth of Nations, b. i. c. xi. p. 291, 6th edit.

between a variation in the power of purchasing derived from causes affecting the particular purchasing commodities, and the variations in the power of purchasing which may arise from causes operating upon the purchased commodities. We must confine our attention exclusively to the former; and for this purpose refer to some standard which will best enable us to estimate the variations in the elementary costs of production, and in the state of the demand and supply of these commodities, as the best criterion of their varying value, or the varying estimation in which they are held at different periods.

On these grounds, Mr. Ricardo, consistently with his peculiar theory, measures the varying values of commodities at different periods by their producing labour.

And Adam Smith, consistently with his more just and applicable theory, measures the values of commodities at different periods by the labour which they will command.

Among the author's chapters is one (the seventh) entitled "On the Measure of Value proposed by Mr. Malthus."

In order to prepare himself for the refutations intended, he sums up his principal doctrines respecting value; and as they are here brought into a small compass, they are here quoted in his own words.

He says, "It has been shown that the value of labour, like that of any other exchangeable article, is denoted by the quantity of some other commodity for which a definite portion of it will exchange, and must rise or fall as that quantity becomes greater or smaller, these phrases being only different expressions of the same event. Hence, unless labour always exchanges

for the same quantity of other things, its value cannot be invariable, and, consequently, the very supposition of its being, at one and the same time, invariable, and capable of measuring the variations of other commodities, involves a contradiction."

"It has also been shown, that to term anything immutable in value, amidst the fluctuations of other things, implies that its value at one time may be compared with its value at another time, without reference to any other commodity, which is absurd, value denoting a relation between two things at the same time; and it has likewise been shown, that in no sense could an object of invariable value be of any peculiar service in the capacity of a measure.

"These considerations," he says, "are quite sufficient to overturn the claims of the proposed measure, as maintained by its advocate."*

They are, no doubt, amply sufficient for the purpose, if they are true. But is it possible that doctrines can be true, which, having no other foundation than a most arbitrary and unwarranted interpretation of a definition of Adam Smith, lead directly to the subjoined conclusions?

First: That the value of labour rises or falls as a given portion of it will exchange for a greater or less quantity of silk or any other commodity, however unconnected with the labourer's wants; so that if silks were to fall to one-half their price, the value of labour would be doubled.

Secondly: That the value of corn in one year cannot be compared with the value of corn in another, because value denotes only a relation between two things at the same time.

* Dissertation on Value, c. vii, p. 140.

And, thirdly, That the comparative steadiness in the value of the precious metals, for short periods, is of no service to them in the capacity of a measure of value.

The decision of the question, as to the truth of doctrines necessarily leading to such conclusions, may be safely left to the reader. But to return to the main subject of the chapter, namely, the measure of value proposed by me.

In a publication entitled "The Measure of Value stated and illustrated," I had given reasons, which appeared to me convincing, for adopting labour, in the sense in which it is generally understood and applied by Adam Smith, as the measure of value; and further to illustrate the subject, and bring into one view the results of different suppositions respecting the varying fertility of the soil and the varying quantity of corn paid to the labourer, a table was added in which different suppositions of this kind are made.

In reference to this table the author observes, that "In the same way any article might be proved to be of invariable value, for instance, ten yards of cloth. For whether we gave 5*l.* or 10*l.* for the ten yards, the sum given would always be equal in value to the cloth for which it was paid, or, in other words, of invariable value in relation to cloth. But that which is given for a thing of invariable value must itself be invariable, whence the ten yards of cloth must be of invariable value."*

This comparison shows either a singular want of discrimination, or a disregard of the premises on which the table is founded. These premises are, that the natural and necessary conditions of the supply of the

* Dissertation on Value, c. vi. p. 145.

great mass of commodities, or, in other words, their elementary costs of production, are, the accumulated and immediate labour necessary to produce them, with the addition of the ordinary profits upon the whole advances for the time they have been advanced; and that the ordinary values of commodities at different periods, according to the most customary application of the term, are determined by the elementary costs of production at those periods, that is, by the labour and profits worked up in them.

If these premises be just, the table correctly illustrates all that it was intended to illustrate. If the premises be false, the whole falls to the ground.

Now, it may be asked, what sort of resemblance is there between ten yards of cloth and ten days' labour? Is cloth the universal and the main instrument of production? Is the advance of an adequate quantity of cloth the natural and necessary condition of the supply of all commodities? Has any one ever thought of calling cloth and profits the elementary costs of production? or has it ever been proposed to estimate the values of commodities at different periods by the different quantities of cloth and profits worked up in them?

If these questions cannot be answered in the affirmative, it is obvious that what may be true and important with regard to labour, may be perfectly false or futile in regard to any *product* of labour. The whole depends upon the mode of estimating the values of commodities.*

* I have been accused of *arbitrarily* adopting labour as the measure of value; but if there be not a most marked and characteristic distinction between labour and any *product* of labour,

It would, no doubt, be an absurd tautological truism merely to state, that the varying wages of a given quantity of labour will always command the same quantity of labour; but if it were previously shown that the quantity of labour which a commodity commands represents exactly the quantity of labour worked up in it, with the profits upon the advances, and does therefore really represent and measure those natural and necessary conditions of the supply, those elementary costs of production which determine value; then the truism that the varying wages of a given quantity of labour always command the same quantity of labour, must necessarily involve the important truth, that the elementary costs of producing the varying wages of a given quantity of labour must always be the same.

It is obvious to any person inspecting the table, that the uniform numbers in the seventh column, illustrating the invariable value of the wages of a given number of men, might, with perfect certainty, have been stated without the intermediate steps but if they had been so stated, no conclusion respecting the

it is difficult to say where a characteristic distinction between two objects is to be found; and surely I have stated this distinction often enough, and brought forward the peculiar qualities of labour as my reasons for thinking that it may be taken as a measure of value. If I had merely stated, that I had adopted it because it was the main element in the natural costs of production, there could have been no ground for such a charge.—*Author.*

Surely the true reason why labour ought to be adopted as the measure of value is not because it is the main instrument of production, as is here stated by Mr. Malthus, but because the same quantity of it always represents the same cost or sacrifice. If this had been made apparent, the supposed arbitrary adoption of it, as a measure, would have altogether disappeared.—*Editor.*

constancy of the value of such wages could have been drawn. The intermediate steps, which show that the value of the wages of ten men is there estimated by the causes which had been previously shown to determine the values of all commodities, can alone warrant the conclusion that the uniform numbers in the seventh column imply uniformity of value in the wages.

Mr. Ricardo had stated repeatedly, that the value of the wages of labour must necessarily rise in the progress of society. He builds, indeed, the whole foundation of his theory of profits on the rise and fall of the value of labour. The table shows that, if we estimate the value of wages by the labour worked up in them, that is, by one element of value, Mr. Ricardo is right, and the value of wages will really rise as poorer land is taken into cultivation; but that, if we estimate the value of wages by the labour and *profits* worked up in them, that is, by the two elementary ingredients of value, the value of wages will remain the same.

The author says that, from the remarks he has made, the reader will perceive that Mr. Malthus's "Table illustrating the invariable value of labour," absolutely proves nothing;* and he concludes his chapter with observing, that his "cursory review evinces that the formidable array of figures in the table yields not a single new or important truth.†

Now, it could never be expected from a tabular arrangement, that it should afford logical proofs of new propositions; but, if the author means that,

* Dissertation on Value, c. vii. p. 148. † *Ibid.* p. 150.

taking the whole publication together, it contains nothing new or important; I can say that, with regard to myself, the view I there took of the subject of value, and of the reasons for adopting labour as its measure, was, in many of its parts, quite new to me a year before the publication.

In the first place; it had nowhere been stated, that the ordinary quantity of labour which a commodity will command must represent and measure the quantity of labour worked up in it, with the addition of profits. But, as soon as my attention was strongly drawn to this truth, the labour which a commodity would ordinarily command appeared to me in a new light. Labour had always appeared to me as the most general and the most important of all the objects given in exchange, and, therefore, by far the best measure of the general power of purchasing of any one object; but on discovering that, by representing the labour worked up in a commodity, with the profits, it represented the natural and necessary conditions of its supply, or the elementary costs of its production, its importance, as a measure, appeared to me very greatly increased.

Secondly; It had nowhere been stated that, however the fertility of the soil might vary, the elementary costs of producing the wages of a given quantity of labour must always necessarily be the same. Colonel Torrens, in adverting to a measure of value, says, "In the first place, exchangeable value is determined by the cost of production; and there is no commodity, the cost of producing which is not liable to perpetual fluctuation. In the second place, even if a commodity could be found which always required the same expenditure for its production, it would not, therefore, be

of invariable exchangeable value, so as to serve as a standard for measuring the value of other things. Exchangeable value is determined, not by the absolute, but by the relative, cost of production."*

I had been convinced, however, that, with a view to superior accuracy and utility, and a more complete conformity to the language and practice of society, in estimating the varying values of commodities for short periods, it was necessary to separate the variations in the power of a commodity to purchase, into two parts; the first, derived from causes operating upon the commodity itself; the second, from causes operating upon other commodities: and, in speaking of the variations in the exchangeable value of a commodity, to refer only to the former. In this case it is obvious that, according to Colonel Torrens, we should possess a measure of value if we could find an object the cost of producing which was always the same.

Now it is shown, in the "Measure of value stated and illustrated," that the conditions of the supply of labour, or the elementary costs of producing the corn wages of a given number of men, estimated just in the same way as we should estimate the elementary costs of producing cloth, linens, hardware, or any other commodity, must of necessity always remain the same.

These two necessary qualities of the labour, which commodities will *ordinarily* command, were practically new to me; and, when forced on my attention, and accompanied by the conviction above-described, as to the most correct and useful definition of value, made me view labour as a measure of value, so far

* On the Production of Wealth, c. i. p. 56.

approaching towards accuracy, considering the nature of the subject, that it might fairly be called a standard.

The publication was also marked by another peculiarity: namely, the constant use of the term *labour and profits*, instead of the customary one, *labour and capital.*

It must be allowed that the expression *labour and capital* is essentially tautological. In every definition of capital, the means of commanding labour are included; and there can be no doubt that machinery and raw materials require labour for their production of the same general description, and usually in as large a proportion, as the labour advanced by the last capitalist. Speaking loosely, we may indeed use the expression *labour and capital*, meaning by capital, when so used, all that part of the general description of capital which does not consist of the means of commanding the immediate labour required. But when we are engaged in an inquiry into the elements of value, nothing can be more unphilosophical than to talk of labour and capital. Excluding rent and taxes, the only elements concerned in regulating the value of commodities are labour and profits, including, of course, in such labour, the labour worked up in the raw materials, and that portion of the machinery worn out in the production; and including in the profits, the profits of the producers of the raw materials and machinery. To say that the values of commodities are regulated or determined by the quantity of *Labour and Capital* necessary to produce them, is essentially false. To say that they are regulated by the quantity of *Labour and Profits* necessary to produce them, is essentially true. And if so, it was a point of some importance to substitute the expression *labour*

and profits for the customary one of *labour and capital.**

The author of this Dissertation, when not under the influence of his peculiar definitions, makes some very just observations; and the work is exceedingly well written; which makes it a matter of greater surprise that its main proposition should be so strikingly adverse to the principle of utility, and so peculiarly calculated to retard the progress of that science which it must have been intended to promote.

It is not necessary to the object now in view to proceed further with these remarks on the definition and use of terms among political economists. What has been already said, if just, will be sufficient to show that much uncertainty has arisen from our † negligence on this important point, and much improvement might be expected from greater attention to it.

* The expression *Labour and Profits* is liable to this objection, that the two are not correlative terms,—labour being an *agent* and profits a *result;* the one a *cause,* the other a *consequence.* On this account Mr. Senior has substituted for it the expression *Labour and Abstinence,* (see his article on *Political Economy,* in the "Encyclopædia Metropolitana.") He who converts his revenue into capital, *abstains* from the enjoyment which its expenditure would afford him. It must be acknowledged, indeed, that it is not the abstinence, but the *use* of the capital productively, which is the cause of profits. It would, however, perhaps be difficult to find another word on the whole less objectionable.—*Editor.*

† I am very ready to include myself among those political economists who have not been sufficiently attentive to this subject.—*Author.*

SUPPLEMENTARY REMARKS.

The views concerning value put forth by the author of this *Critical Dissertation* seem to have been the necessary result of his determination to adhere strictly to the definition which has been given of it in the fourth chapter of the *Inquiry into the Wealth of Nations* (see Def. 7).

Assuming that definition to be correct, it is impossible to deny the truth of this author's conclusions regarding it. His reasonings are all worked out with perfect consistency, and great ability; but the futile, and, in some instances, absurd consequences to which they lead, show in the clearest manner that the definition itself, taken without modification, must be erroneous, and is indeed altogether untenable.

Value, in this restricted sense of it, is reduced to mere *exchangeability;* and we are thus left without a term to express what is meant by it in its other and more important sense. Without some equivalent word to express that meaning, the political economist can hardly advance a step in his inquiries. Adam Smith, as we have already seen, abandoned his definition, and those writers who have adopted it have been compelled to deviate from it in their reasonings, somewhat indeed at the expense of their consistency.

Mr. Lalor* says of this *Dissertation on Value*, that it would have been faultless if it had contained a better appreciation of that tacit reference to *equal amounts of sacrifice* which is made in contracts, and in all

* Money and Morals, p. 88.

comparison of values at distant points of time. But all such reference was *purposely* disregarded by the author. Its omission enters into the very plan of his work. He found nothing relating to it in the definition, and he did not conceive it his business to seek for it elsewhere. He has therefore written a very ingenious and logical, but, as it appears to me, a very useless book.—*Editor*.

CHAPTER X.

SUMMARY OF THE AUTHOR'S REASONS FOR ADOPTING THE FOREGOING DEFINITION OF THE MEASURE OF VALUE. (See Def. 5, page 8.)

As a preliminary, it may be proper to state that, it seems absolutely essential to the language of political economy, that the expression *value of a commodity*, like the expression *price of a commodity*, should have some fixed and determined sense attached to it.

Every person who has either written or talked upon the subject of political economy, has been constantly in the habit of using the term without specifically expressing the object of comparison intended: and, if it were true, that we might with propriety suppose any one of a thousand different objects referred to, it might easily be shown, that all past writers who had used the term *Value* had talked the greatest nonsense; and all future writers must abound in the most tedious circumlocutions, and the most futile propositions.

Those writers, therefore, who have hitherto used it, must be considered as referring, in some form or other, either to its general power of purchasing, or to the estimation in which it was held, determined by the state of its supply compared with the demand; and, on an average, by the elementary costs of production.

My reasons for thinking it more correct and useful to refer to the estimation in which a commodity is held, determined by the elementary costs of production, rather than its general power of purchasing, have already been given. But as others may be of a different opinion, and may prefer referring to the general power of purchasing; it may be as well to state the reasons why in this respect also, labour may be considered as the measure of value.

First: This general power of purchasing must refer to the mass of commodities; but this mass is quite unmanageable, and the power of purchasing it can never be ascertained. With a view, therefore, to its practical application, it would unquestionably be our endeavour to fix upon some object, or set of objects, which would best represent an average of the general mass. Now, of any one object, it cannot for a moment be denied that labour best represents an average of the general mass of productions. There is no commodity considered by society as wealth, for which labour is not, in the first instance, exchanged; there are very few for which it is not exchanged in great quantities: and this can be said of no other object except labour, and the circulating medium which represents it. It is, at once, the first, the universal, and the most important object given in exchange for all commodities.

Secondly: The varying vent or demand for one commodity cannot possibly be represented by the varying quantity of another commodity for which it is exchanged, unless the second commodity remain steady in regard to labour. If at one time I give two pounds of hops for a yard of cloth, and at another time only one, it does not at all follow that the demand for cloth has diminished; on the contrary, it may be

increased, and in giving the value of one pound of hops, I may have enabled the cloth manufacturer to set more men to work, and to obtain higher profits than when I gave the value of two pounds. But the demand for a commodity, though not proportioned to the *quantity* of any other commodity which the purchaser is willing and able to give for it, is really proportioned to *the quantity of labour* which he will give for it; and for this reason: the quantity of labour which a commodity will *ordinarily* command, represents exactly the effectual demand for it; because it represents exactly that quantity of labour and profits united necessary to effect its supply; while the *actual* quantity of labour which a commodity will command when it differs from the *ordinary* quantity, represents the excess or defect of demand arising from temporary causes. If then, looking to the foundation of all value, namely, the limitation of the supply, compared with the wants of mankind, we consider the value of commodities at any time or place as proportioned to the state of their supply compared with the demand at that time and place, it is evident that the quantity of labour of the same time and place which any commodity, or parcels of commodities, will command, can alone represent and measure the state of the supply of them as compared with the demand, and their values as founded on this relation.

Thirdly: It has often been stated that the value of a commodity is determined by the sacrifice which people are willing to make in order to obtain it; and this seems to be perfectly true. But the question recurs, how are we to measure this sacrifice? It is obvious that we cannot measure it by the *quantity* of another commodity which we are willing to give in

exchange for it. When I give more calicoes, or more potatoes, than I did before for a certain quantity of hardware, it does not at all follow that I make a greater sacrifice in order to obtain what I want. On the contrary, if calicoes and potatoes had both fallen in price, the one from improved machinery and the other from the abundance of the season, my sacrifice might even have been less rather than greater. Even the quantity of money which is given for a commodity is no measure of the sacrifice made to obtain it, though it is an excellent measure of the variations in the sacrifice made, at the same time and place; yet without further information, it will tell us nothing either about the amount, or the variations at different places and times. The giving of an ounce of silver was a very different sacrifice in the time of Edward I. from what it is at present. It is obvious, therefore, that the sacrifice which we are willing to make, in order to obtain a particular commodity, is not proportioned to the *quantity* of any other commodity for which it will exchange, but to the difficulty with which such quantity, whether more or less, is attained. Now labour can measure this difficulty, but nothing else can. If then, the value of a commodity be determined by the sacrifice which people are willing to make in order to obtain it, it is the labour given for a commodity, and labour alone, which can measure this sacrifice.*

* It is to be regretted that the author did not wholly confine himself to this very simple and intelligible view of *Value*, which perfectly coincides with Adam Smith's use of the term as stated in Def. 8, page 8.

His anxiety to connect Labour with Value in its *other* sense, seems to have led him into a somewhat lengthy disquisition, *not nearly* so satisfactory, and altogether unnecessary.—*Editor.*

Fourthly: The values of commodities may be considered as, on an average, determined by the natural and necessary conditions of their supply. These conditions are the accumulated and immediate labour worked up in them, together with the ordinary profits upon the whole advances for the time that they were advanced. But the quantity of labour which a commodity would ordinarily command must represent both these conditions, for it includes both the labour bestowed upon it, and the profits upon that labour and the other advances, if any. If, therefore, the ordinary value of a commodity be considered as determined by the natural and necessary conditions of its supply, the labour which it would ordinarily command can alone measure these conditions.

Fifthly: The values of commodities are often said to be determined by the costs of production. When the costs of production do not refer to money, but to those simple elements of production, without an adequate quantity of which, whatever may be their price in money, the commodity cannot be produced, they are precisely the same as the natural and necessary conditions of the supply. The elementary costs of production, excluding rents and taxes, are the labour and profits required to produce a commodity, and of these it has been already shown, that the labour which the commodity will ordinarily command is alone the measure. And if we could obtain with tolerable exactness the average price of common agricultural labour at different times, and in different countries; and that the prices of all other sorts of labour continued (as assumed by Adam Smith and Mr. Ricardo) to bear nearly the same relations to each other in the further progress of cultivation and improvement; the quantity

of common agricultural labour, which a commodity would ordinarily command at any place and time, would always accurately measure the elementary costs of production at that time and place; so that commodities, which at two different periods in the same country, would ordinarily command the same quantity of such labour, might be held to be equal to each other in their elementary costs of production, and consequently in their values.

Whether, then, we consider the value of a commodity at any place and time as expressed by the estimation in which it is held; whether we consider it as founded entirely on the state of the supply as compared with the demand; whether we consider it as determined by the sacrifice which people are willing to make in order to obtain it; or by the natural and necessary conditions of its supply; or by the elementary costs of its production; it is plain that the labour which it will ordinarily command in any place will measure its natural and ordinary value; and the labour which it will actually command will measure its market value.

It is indeed true that a very general opinion has prevailed among political economists, even since the publication of Adam Smith's work, that, from the very nature of value, it cannot admit of a regular and definite measure.

I was myself for a very long time of this opinion, but am now perfectly convinced that I was wrong, and that Adam Smith was quite right in the prevailing view which he took of value, though he did not always strictly adhere to it. I am also convinced that it would be a great improvement to the language of political economy, if, whenever the term value, or

value in exchange, is mentioned without specific reference, it should always be understood to mean value in exchange for labour,—the great instrument of production, and primary object given in exchange for everything that is wealth; in the same manner as, when the price of a commodity is mentioned without specific reference, it is always understood to mean price in money—the universal medium of exchange, and practical measure of relative value. I am further convinced that the view of value here taken throws considerable light on the nature of demand and the means of expressing and measuring it, and that a just view of value is absolutely necessary to a correct explanation of rents, profits, and wages. These convictions on my mind, which have acquired increase of strength the longer I have considered the subject, must be my apology to the reader for dwelling on it longer than, in considering it cursorily, he might think it deserves.

SUPPLEMENTARY REMARKS.

In the author's very long summary in the original edition, of which the one here given is an abbreviation, as well as in his remarks on the preceding chapter, he has laboured with great earnestness to vindicate his doctrine concerning the measure of value, which he would have had no difficulty in doing if he had adopted that definition of it which accords with Adam Smith's use of the term (see Def. 8), and which he has himself incidentally referred to (page 134).

The one which he has adopted (Def. 5), and which

he modified in his subsequent treatise (Def. 6), seems to have precluded him from working out his views respecting it except by a circuitous, and in some respects objectionable, line of argument.

But further, this definition connects value with *interchange*, to which branch, in its ordinary sense, it does not belong, instead of with *distribution*, to which it does belong, and which tends to the confusion of these two subjects.

The whole aim and object of the author would have been fully attained by his simply considering value as expressive of *cost to the purchaser*. If it be once admitted that labour is the sole measure of cost, it follows, as a matter of course, that the quantity of labour (or labour's worth) which the purchaser of a commodity gives in order to acquire it (and which is precisely equal to that which it will command) is the measure of its value; and if the Author had so explained it, he would have arrived at the same conclusions as those which he has endeavoured to establish by a more direct method, and one less open to objection or cavil.

THE END.

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